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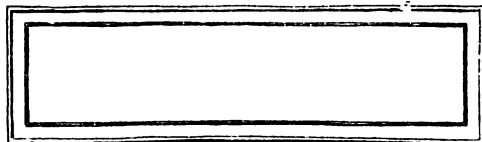
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SHAW BANKING SERIES

CREDITS
AND COLLECTIONS

GIFT OF
Mrs. Berton Einstein



THE SHAW BANKING SERIES

CREDITS AND COLLECTIONS

**THE SERIES: ADVERTISING AND SERVICE; ACCOUNT-
ING AND COSTS; LOANS AND DISCOUNTS; EXECUTIVE
CONTROL; BUILDINGS, EQUIPMENT, AND SUPPLIES;
CREDITS AND COLLECTIONS.**

Univ. of
California

THE
CREDIT DICTIONARY



INDORSERS AND COLLATERAL									
					President <i>J. R. Hastings</i>		Name <i>Hastings Company</i>		
					Vice-Pres. <i>H. C. Carr</i>		Business <i>Manufacturing</i>		
					Secretary <i>J. M. Carr</i>		Address <i>57 Quinn Street</i>		
					Treasurer <i>H. C. Carr</i>		Corporation <i>Partnership</i>		
					Date	Due	Amount	Experience	
Cash					3/17/19				
Bills and Accounts					4/1/19				
Merchandise					1/2/19	4/1/19	10000	prompt	
Total Quick Assets					3/1/19	3/1/19	7000	in the dit	
Real Estate, Machinery and Fixtures					3/1/19	4/1/19	4000	prompt	
Other Assets					4/2/19	4/2/19	3000	OK	
Bills and Accounts					4/2/19	4/2/19	1500	OK	
Deposits					4/2/19	4/2/19	5000	in the dit	
Bonds or Mortgages					4/2/19	4/2/19	4500	OK	
Other Liabilities					4/2/19	4/2/19	4500	OK	
Capital or Net Worth					4/2/19	4/2/19	4500	OK	
Surplus and Reserve					4/2/19	4/2/19	4500	OK	
Net Active Assets					4/2/19	4/2/19	4500	OK	
Ratio Quick and Current					4/2/19	4/2/19	4500	OK	
Net Worth					4/2/19	4/2/19	4500	OK	
Annual Business					4/2/19	4/2/19	4500	OK	
Net Earnings					4/2/19	4/2/19	4500	OK	
Dividends in %					4/2/19	4/2/19	4500	OK	
% Earned on Capital					4/2/19	4/2/19	4500	OK	
Don					4/2/19	4/2/19	4500	OK	
Bradstreet					4/2/19	4/2/19	4500	OK	
					Line 19 19 19	Line 19 19 19	Line 19 19 19		
					Highest Loan	Lowest Loan	Average Balance	Highest Loan	Lowest Loan
					Jan.	Feb.	Mar.	Apr.	May
					June	July	Aug.	Sept.	Oct.
					Nov.	Dec.	Year		

The "credit dictionary" shown here enables the vice-president of a Michigan bank to tell in a moment, without looking in files or folders, the exact condition of any borrower. In addition to this the book also contains a complete financial record of each depositor.

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California

CREDITS AND COLLECTIONS

**TESTED METHODS AND RECORDS FOR HANDLING CREDITS
—FINDING THE RIGHT CREDIT BASIS—FORTIFY-
ING YOUR CREDIT POLICY—COLLECTION
PLANS THAT CUT COSTS**



A. W. SHAW COMPANY
CHICAGO NEW YORK
LONDON

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ALBANY, N. Y.

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Gift of Mrs. Berta Einstein
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of joining the Federal Reserve System. A wholesaler who discounted \$1,150,000 of trade acceptances in a year at a cost of only \$140. How to record and collect trade acceptances. Entering them in the liability ledger. How to take care of payments. Giving each account a number. A form that facilitates collections.

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WHY THIS BOOK WILL BE OF REAL VALUE TO YOU

TO safeguard the credit and collection department against loss and at the same time do a maximum volume of business, may rightly be regarded as the goal of every banker. At times, however, this ideal condition seems difficult of attainment, the course of procedure being more or less uncharted, so to speak.

This book, which is one volume of the Shaw Banking Series, aims to assist the banker in mapping out his course by outlining in systematic form the tested plans, methods, organization and the like, which have enabled other bankers not only to establish their institutions on a profitable foundation, but also, at the same time to safeguard their integrity.

It is quite obvious that a description supplemented by charts and diagrams of the tested plans by which other bankers fortified themselves, step by step, against mistakes in judgment, management, control or organization, and at the same time insured success, will be helpful to all bankers in general. Those described in this volume have been gathered out of the everyday experiences of a hundred or more bankers of every type. All have been tried out and because they have proved successful in solving some particular problem, they find a place in this book.

You will find as you glance through the pages that many of these tested plans may be used profitably in almost any bank, without a change, while others will, no doubt, have to be altered some in order to meet varying conditions, but this will in nowise affect the fundamentals.

It is quite evident then that the real value of this volume lies in the many opportunities it affords you to apply the successful methods of other bankers to your own credit and collection problems, and with these tested plans before you, to chart for yourself a well-defined course to insure not only profit, but security as well.

No essential phase of this important division of the banking business has been overlooked in this volume, and it will be found that among the many plans and methods described here, every type of banking institution is represented. More or less recent legislation has given a special impetus to banking activities in rural communities and those bankers who are interested more particularly in farm credits will find many helpful suggestions for extending their business among farmers. This is equally true of all other types of banks.

In the preparation of the material for this volume the editors and publishers received generous cooperation from bankers throughout the country and their whole-hearted support and assistance is gratefully acknowledged. Some of these sources of assistance are listed on the two following pages. Not only have these bankers been generous in relating their experiences and outlining their profit-building plans, but many of them have inconvenienced themselves in order to lend to the editors many of their charts, diagrams, folders, cards, and the like, in order that reproduction might be made from them. Without this thoughtful consideration from the bankers of the country, this volume would have been impossible.

The preparation of the volume was in charge of Joseph M. Regan, assisted by James S. Baley and the editors of the Book Department of the A. W. Shaw Company.

THE PUBLISHERS

AUTHORITIES AND SOURCES FOR THIS VOLUME

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Detroit; Grand Rapids Saving Bank, Grand Rapids, Michigan; National Bank of Decatur, Decatur, Illinois; Farmers and Merchants State Bank, Decatur, Illinois; Cedar Rapids Savings Bank, Cedar Rapids, Iowa; American National Bank, St. Paul; and many others.

PART I

TESTED METHODS FOR HANDLING CREDITS

CHAPTER I

PERFECTING YOUR CREDIT RECORDS AND ROUTINE

THE First National Bank of Iowa City has on file the credit records of a number of people in the city and country who never have asked for or borrowed a penny. But almost every man at some time needs extra money and this bank doesn't have to "beat around the bush" with applicants and make them wait until its officers can make the necessary investigations. The president usually can tell from his forehanded records (Figure 1) whether he can extend the credit asked for or not.

This is just one plan which both small and large progressive banks have adopted to perfect the organization of their credit and collection department.

The last few years have seen important changes in banking credits, that date back from the old method of pigeonholing credit information in one's memory to the modern methods of having in the files the most complete records available of borrowers and possible applicants. Bankers generally agree that with the growth of the banking business the greatest competition of the future for bankers will focus itself on credit facilities. This means that the importance of credits will have to be measured accordingly. Admittedly the sort of service a banker can give in granting credit and the real cooperation he can extend to customers will have much to do with the growth of his business and the upbuilding of his profits.

For this reason the credit activities of a bank necessarily must be clearly defined and well organized. It is not practicable nor always possible with the present development of banking to know personally the life history of every borrower; to retain a mental picture of his character, capacity and capital; and to make loans safely with no records or guideposts of some sort in the files to refer to. Auxiliary facts, aside from personal friendship and acquaintance, are essential if not entirely necessary. And it doesn't matter whether a bank is small or large, whether the credit activities are dignified by the name "department" or not, the need of having every facility possible to expedite the handling of credits is very real.

Therefore, this and succeeding chapters will describe in detail how the credit department is organized and how it functions in everyday tested practice. This information dovetails somewhat with the plans for handling the routine of loans and discounts, set forth in another volume of the Shaw Banking Series under that name. In this book, then, will be considered:

1. The organization of the credit department.
2. Preparing the credit offerings for the discount committee.
3. How to classify risks.
4. Gathering and furnishing credit information.
5. Analyzing financial statements.
6. Watching customers' finances and making investigations.
7. Determining lines of credit.
8. How to handle the farmer's business.
9. Guarding against losses by making audits.
10. Keeping in touch with market conditions.
11. How to cooperate with mercantile agencies.
12. Methods of filing credit information.
13. Time-saving equipment for the credit bureau.
14. Handling collections and similar problems.
15. The routine of the trade acceptance.

The mechanical phase of loan making, of course, is only supplementary to judging credit risks and insuring

safety to the bank. For, after all, no matter how smoothly the routine is oiled by perfected systems, unless the credit man knows well his applicant and analyzes correctly this human element behind all the figures, the bank will not be reasonably safeguarded.

The first requisite, therefore, for any bank, whether large or small, is to choose the right sort of credit man—the basis of an adequate organization. To many this will seem so obvious as to be wasted words, but investigation of banks in many sections indicates that there is too strong a tendency for banks to have a man in charge of credits who has not the broad vision to handle his department satisfactorily. He may be too genial or he may be too firm. Perhaps he still believes in trusting to the information he has pigeon-holed in his "office hat." He may hold the job simply because he is popular about town or because his father had money before him.

These and many other factors sometimes influence a credit man's appointment, at least subconsciously. In a small bank he may not carry that particular title. He may be the president, the vice-president, the cashier, or the assistant cashier. That makes little difference. The important point is for every banker to tackle this problem anew and see whether the credits of the bank are handled just as wisely as they ought to be.

A bank credit man, briefly, should combine many qualities. He should be firm—of positive qualities. On the other hand, he should be able to make customers and prospective customers "feel at home" when he greets them. Ideally, he will have an application tactfully sized up before it comes to the discount committee. His recommendation will usually be right. He should understand psychology and judge character fairly well and he should know how to cater intelligently to customers' needs. Especially are these qualities necessary to meet banking competition. The

small bank, more so than the larger one, must give more attention than ever before to this particular phase of the business.

Assuming that a bank has made a wise choice of a credit officer, the proper organization of the department, whether in a small or large bank, is the next step. It is not the purpose of this chapter to take up every detail of such an organization because each bank has different problems. The following pages, therefore, will indicate some of the ways found useful by progressive banks to handle credits satisfactorily.

THIS EFFECTIVE CREDIT SYSTEM HELPS TO INSURE
QUICK SERVICE TO YOUR CUSTOMERS

No matter what the size of a bank, the fundamentals of any successful plan apply to any bank irrespective as to size, so that the ideas and tested plans presented here should offer valuable suggestions to almost any banker for improving his credit vision and routine. Any help of this sort obviously creates new business opportunities for bankers.

Let us first consider the plan of the Iowa bank mentioned at the beginning of the chapter. The figure illustrated represents a very simple record, but it is worth a lot of money to the bank.

"In these days of keen competition, when an applicant will walk out and go to the next place if you don't take care of him promptly, a record like this is indispensable," says W. J. McChesney, the president. "And it isn't difficult to keep. In it are sheets covering not only a record of all our loans, but possibilities for loans as well. We call it our liability ledger, although it's a mighty important fund of information, too.

"We make out a sheet for every farmer, merchant, or individual we know of in the community or surrounding district, whether a customer of our bank or not. We figure that some day one of them may be a

prospect for a loan at our bank even if he is not now. Perhaps we may have no information whatever at the start. But little by little we find out and jot down the various facts about a prospective borrower. Then, when a farmer, for instance, who has never been a customer, applies for a loan, we probably have all the information we need about him on one of these sheets and can grant or refuse the request without making him wait a week or go to another bank.

"We collect our information largely by being wide awake to any remark we may overhear. For example, a farmer customer may drop in merely to say 'hello!' We may talk for a moment or two, and in the course of the conversation he may casually mention some important incident bearing on his own or his neighbor's financial condition. We make a note of the fact and later have it transferred to the liability ledger sheet. Our valuable fund of credit information is the result of keeping tab on all items of this sort. It is really a gold mine of credit material. How does it work?

"A farmer came in the other day and wanted to borrow \$500 for 90 days. He was not a customer, but he leaned over the railing half timidly, and half expectantly, and told me who he was.

"'Just a moment,' I said as I opened my liability ledger. His sheet was there. I instantly saw that he was the owner of a farm worth \$40,000. I would gladly have lent him \$15,000. I turned and said:

"'Yes, certainly, Mr. Burton, we will be glad to accommodate you.'

"And in less than 10 minutes he had his money and was thanking me for our service. That is what I consider an approach to real banking. Does anyone suppose methods like this can fail to bring many dollars of profits to a medium-sized bank like ours?"

These ledger sheets (Figure 1) as you will see, provide for entries on both sides. Spaces are included

on the front for entering the most basic credit information and for showing the amount of real estate or personal property owned, if any. The reverse has spaces for comments of officers and friends on the risk. Below is ample space for incidental facts about the prospective borrower which we have picked up.

In this banker's own words the liability ledger—one simple record—went a long way toward perfecting his credit organization. Another bank keeps a somewhat similar record, and adds to it the names of all new depositors promptly.

COURTESY TO VISITORS DOES NOT COST ANYTHING
BUT IT OFTEN BRINGS BIG RETURNS

Investigation indicates that many bankers no longer give a cold welcome to applicants who are not customers. Instead of the old stereotyped question, "Have you an account with us?" in response to the applicant's request for a loan, bankers realize the importance of receiving the applicant cordially and perhaps obtaining a worth-while customer or at least making a friend. It is not, therefore, considered good banking business to turn an inquirer down cold simply because he is not a depositor. And yet this has been the practice in some banks. The new idea of service, however, extends to credits as well as to Christmas clubs and other activities.

A Missouri bank makes its loans intelligently by having complete, convenient records of all its customers' activities. For instance, the credit manager has one card file which shows graphically the relations of every customer with each department of the bank. These cards (Figure 2), which are about 7 by 9½ inches in size, provide for more information than the ordinary average balance card. Besides the balances and the average loans which are entered on the reverse side, spaces are included for showing whether or not

Name	Collateral Loan Demand	Indorsers	Officers or Partners	
Business	Collateral Loan Time			
Address	Unsecured Loan Demand			
Residence	Unsecured Loan Time			
Introduced by	Real Estate Loan			
	Affiliations with Other Departments	Affiliations with Other Customers	Checks Returned Because of Insufficient Funds	Overdraft Record
C/A Opened	Send Department			
	Real Estate Department			
Opening Entry	S. D. Department			
	Trust Department			
Account Closed	Farm Loan Department			
	C/D			
	S/A			
Reference or				
Agency Rating				
	Stockholder			

AVERAGES BALANCES AND LOANS (LOANS IN RED)											
Jan.											
Feb.											
Mar.											
Apr.											
May											
June											
July											
Aug.											
Sept.											
Oct.											
Nov.											
Dec.											
Yearly Average											
Yearly Average											
C/A Balance Date											
Savings											
C/D											
Remarks:											

Figure 2: The credit manager of a middle-western bank keeps close tab on his customers with a file of cards like this one. The front of the card provides for information on the borrower's activities in other departments. Average loans are entered on the reverse side in red.

CREDIT STATEMENT

(To be attached to each note offered for rediscount)

Commercial or Industrial

To the Federal Reserve Bank of Chicago

Name _____

Address _____

Business _____

Date of last Statement _____

ASSETS

Cash on Hand _____ \$

Bills and Accounts } _____ \$

Receivable—good } _____ \$

Merchandise—good _____ \$

Real Estate and } _____ \$

Buildings } _____ \$

Other Assets _____ \$

Total _____ \$

LIABILITIES

Bills Payable _____ \$

Accounts Payable _____ \$

Mortgage or } _____ \$

Bonded Debt } _____ \$

Other Liability _____ \$

Capital _____ \$

Surplus and Profits _____ \$

Total _____ \$

Contingent Liability _____ \$

Annual Business _____ \$

Profit last Year _____ \$

Loss last Year _____ \$

Purpose for which } _____

this Loan was made } _____

To the best of my knowledge and belief the statements furnished herein are true and in accordance with the facts.

Bank

Cashier

Figure 3: The basic facts necessary for a banker to know about every borrower are lined up concisely on this form, which is furnished by the Federal Reserve Bank to cover each piece of paper offered to it for rediscount. This statement provides a valuable guide for sizing up risks.

the customer has had business with other departments of the bank and whether he has trade affiliations with other customers. Notice, too, that a record is kept of checks returned for insufficient funds, as well as overdrafts. The average loans are entered in red.

In practice this card has proved effective in keeping officers well informed of each customer's activities. The expense has been slight in comparison. As the largest percentage of requests for loans from this bank come from customers who carry current or checking accounts, a plan like this is of considerable import, because each card indicates quickly any shortcoming that would bar a customer from receiving a loan.

Of course, from every depositor who wishes to secure credit is required a statement. The form varies somewhat according to local clearing house regulations, and so on. However, the basic information necessary to know is set forth on the form (Figure 3) which the Federal Reserve Banks require to accompany all paper presented to them for rediscount. Methods of getting customer statements are described in Chapter VI.

As soon as all available information on a customer has been obtained the credit manager and his assistants analyze it and make up a summarized digest of it. If the depositor has already applied for a loan, the credit department prepares the information for the discount committee. The Union Commerce National Bank, of Cleveland, compiles this digested summary under the following headings:

1. Investigations, interviews, and so forth
2. Mercantile reports
3. Correspondence
4. Miscellaneous

All this data goes into a special credit folder (Figure 4) so that the discount committee or credit officer can expeditiously run over the facts and make a decision.

This folder has heavy board covers and is 10 by 15 inches in size. Instructions on the front read: "This folder must be returned to the credit department

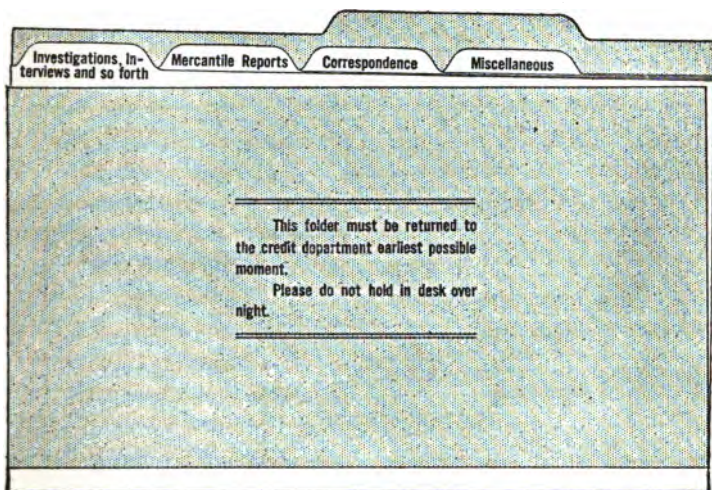


Figure 4: This time-saving folder was arranged by a Cleveland bank for filing a summary of the financial standing of each borrower. It enables the lending officers to find out the important facts quickly.

earliest possible moment. Please do not hold in desk overnight." The credit department takes this precaution because it would require considerable effort and expense to replace a batch of information of this sort. Each folder is filed alphabetically in steel files. It is a great convenience to have all information for each customer filed in the one folder.

Many banks are adopting this idea, in one way or another. A middle-western bank keeps the required credit data for each customer within the covers of a folder, which is itself one of the record forms, thus condensing the information to the least possible space.

When a new business account is opened the folder (Figure 5) is prepared. On the inside of the front

NAME <u>Seminole Parkers</u> BUSINESS AND TRADE STYLES					<u>Furniture, Pompeii, Neb.</u>				
ADDRESS					BRANCHES				
INTRODUCED BY					OUTSIDE AFFILIATIONS				
ACCOUNTS INFLUENCED AND OTHER LOANS MADE					ACCEPTED BY				
INTEREST					CHARGE				
OPENED <u>9/15/15</u> FROM					OTHER BANKS BROKERS				
CLOSED TO					PAPER ALSO RECEIVED FROM				
<u>Do not charge them exchange on items</u>					<u>can collect at par</u>				
YEAR	1915	1916	1917						
JANUARY	7 710	9 121	2 675						
FEBRUARY	7 620	6 960	3 639						
MARCH	5 000	7 250	4 350						
APRIL	7 598	11 118	4 167						
MAY	6 870	12 709	4 812						
JUNE	7 370	14 106	4 056						
JULY	5 470	13 796	5 792						
AUGUST	6 970	12 509	6 261						
SEPTEMBER	6 670	11 584	6 016						
OCTOBER	5 960	6 287	7 627						
NOVEMBER	5 610	5 313	8 147						
DECEMBER	9 774	3 550	6 634						
Years Average	6 799	9 608	5 357						
Maximum Direct	50 M	70 M	50 M						
PERIOD	<u>3/14 - 8/12</u>	<u>5/19 - 7/15</u>	<u>4/18 - 5/20</u>						
Maximum Receivables	0	0	0						
PERIOD									
Minimum Direct	15 M	0	15 M						
PERIOD	<u>1/17 - 1/26</u>	<u>11/26 - 12/31</u>	<u>8/18 - 5/29</u>						
Minimum Receivables	0	0	0						
PERIOD									

Minimum Receivables				
PERIOD				
Sub Name	Cross References			
Business Locality				
<u>Oct. 22 - 1915 -</u>				

Figure 5: How completely and compactly credit information may be kept is evidenced by this illustration of the inside front cover of an effective credit folder. A great deal of information is listed here, including the borrower's average balance over a three-year period.

NAME	BUSINESS	ADDRESS	J.E.C.
Jenkins, Parker & Telfer.	Furniture	Popepel, Neb.	
GUARANTORS OR ENDORSERS Ann Heath & Samuel Clark \$100M 4/21/36			
Date	Jan. 15	Jan. 16	Jan. 17
Quick Assets	293.24	279.45	361.00
Current Liabilities	172.4	132.3	116.0
Excess Quick Assets	120.8	147.1	245.0
RATIO	1.70	2.11	3.11
Other Assets	1.7	1.4	2.9
Capital Surplus (or NET)	100.0	100.0	200.0
& Und. Prof. WORTH	22.6	48.7	47.9
Reserves Not Specified			
INCORPORATIONS and			
Rated or Short Indebted			
Contingent Liabilities			
Dividends	13.5	13.5	27.0
Annual Turnover			
Total Insurance			
Line or DIRECT			
Half Day Bills Pay			
Special Arrangements			
OFFICERS Ann Heath Pres	Vice-Pres	Samuel Clark, C.M. & Treas	
PARTNERS			
Fourth National Bank, St. Louis, Mo. J. W. Spencer, Vice-Pres	Do not find company has New York banking connection at this time. Kansas City bank checkings are favorable and indicate company is good for its requirements. Management considered competent. Heath is director in Fourth National, and Pres. & Treas. of Ann Heath, Inc., and A. T. W. Company, Inc. At times their float indebtedness is rather large, owing to the fact that they make advances up to 75% on lumber to jobbers before furniture is sold, this credit being extended by their banks. They find the W. L. Company of Jewell, output being sold by on consignment basis. Have taken lease on W. City Company which will be the T. G. L. Company and output sold by them on commission. Has had considerable experience, said to be the active for an increase in loans to \$75M or \$80M. Advised the officer not to increase line with them at present. Well spoken of by its banks here. At one bank has and one at present \$10M. Other bank holds \$40M or being \$50M. Continue in good credit and standing satisfactory bank accounts in this city, where they frequently loan requirements. Their 2 banks in loan company freely. Statement does not show of quick assets over C/L as we should like to. Agreed to line of \$75M. Might consider a satisfactory explanation. Relations continue on same basis. Line we have has out \$40M and since Dec. 1916 it continuous borrower, although at times. Advices throughout other sources indicate statements judge it to be a good risk.		
T. L. Cory			
Merchants National Bank, Popepel W. H. A. Cashier.			
Security Bank, Popepel A. T. E. Asst. Cashier.			
First National, Popepel			
T. L. Cory			
Citizens National, Chicago A. W. P., Asst. Cashier			

Figures 6 and 7: This card provides additional credit facts about the customer and goes into the folder shown in Figure 5. When the lower part of the card has been filled in with data, a sheet gummed at the upper edge (Figure 7), is attached as indicated, to permit further entries.

cover space is provided for a great deal of general information regarding the account; for a statement of the average balances from month to month, and also for the amount of the line of credit and so on. The illustration shows the condition of an account over a period of three years, and the entries cover a fund of valuable information for the lending officer.

AFTER ALL, PROPER CREDIT RECORDS ARE SIMPLY
A MATTER OF SUITING YOUR REQUIREMENTS

After the folder is made out, a white ruled card of the same size is headed up (Figure 6). This provides a record of the assets and liabilities, of the net worth, of the dividends, and so on. It also serves as an abbreviated record of all the correspondence received from time to time regarding the account. When an account has run long enough to fill up all the space on the card, sheets of white paper with a gummed edge along the top (Figure 7) are used for further summaries of the correspondence.

Let us take, for example, the item shown under the date of September 18, 1916, headed "T. L. Cary" with the notation "Citizens National, Chicago" underneath. This indicates that the bank named has written a letter of information about Cary and that the letter is in the folder for reference at any time. If the lending officer is extremely busy and does not want to spare the time to look over letters of this sort, he can see from these notations, the gist of them at a glance. As the bank receives each letter or report bearing on an account, it is summarized as indicated and then placed in the folder. It is worth noting that the customer's card itself provides spaces for entering the ratio of his quick assets to liabilities and also for registering his dividend percentage. Thus the illustration shows that in January 1915 the ratio was 1.7, and in January 1917, 3.11. Comparing these figures

NOTES MATURING _____									
Maker	Indorser ("I") Guarantor ("G") or Collateral	Amount	Paid	How Dispose Last rate	Line	Total Amount Owing	Last Clean-up Remarks	Average Balance Last Month	Affiliated Accounts Balance Amount Owed

Figure 8: The lending officers of one bank save time during rush hours by using this record for maturing loans. The complete information given makes it unnecessary to refer constantly to the credit files

TOWN AND STATE		BANK	
INTRODUCED BY		ACCEPTED BY	
AFFILIATED ACCOUNTS		INTEREST	
OPENED	FIRST DEPOSIT \$	CLOSED	
MEMORANDUM OF ARRANGEMENT.			
NAME			
ADDRESS			
BUSINESS	CHARACTER OF ACCOUNT		FIRST DEPOSIT \$
OPENED	CLOSED		
ACCOUNTS AFFILIATED AND INFLUENCED			
INTEREST		HANDLING CHARGE	
REMARKS		INTRODUCED BY	ACCEPTED BY
THE NATIONAL CITY BANK OF CHICAGO			

Figure 9: These cards, one for a record of correspondent bank accounts and the other for commercial depositors, serve their purpose well for a western bank. Balances are entered on the reverse side.

with the dividends of 13.5 in January 1915 and 27.0 in January 1917, the bank can tell at a glance whether or not the company is making money and how this money is being distributed.

1 Name				
Address				
Send request to				
1914	1915	1916	1917	1918
1919	1920	1921	1922	1923

Figure 10: This alphabetical card record keeps the financial statement file up to date for one bank. The number on the guide tip indicates the month a statement is due. Page 21 explains the plan fully.

Thus the folder can be made to perform a decidedly effective service in simplifying the granting of credits, and in facilitating the examination of mercantile and industrial credits. In much the same way the task of handling maturing notes from day to day is simplified by the use of a form (Figure 8) which is placed on the lending officer's desk each morning. This record is especially valuable since it indicates at a glance the disposal of notes and other information equally pertinent, such as the total amount owing, the last clean-up, and the average balance for the preceding month. This average balance is determined by the bookkeepers after an examination of the ledger, and

INSERT I

Insert I
to the
customers
may be

then transferred to cards (Figure 9). As will be apparent one form is for individual accounts and the other for banks which have money on deposit.

On one side of these cards appears general information concerning the account and on the reverse side the average balance from month to month. When these averages are finished, they are sent to the credit department, to complete its file of all the necessary information concerning accounts.

Of course, to make this information entirely practicable the credit manager adds his own analysis of the customer and makes any recommendation or comment he deems wise. Instances came to light, during the investigation, of exhaustive analyses of risks by the credit department. Some of them probably saved various banks from unfortunate losses because the applications looked favorable and would probably have been passed by the discount committee. The expense involved more than paid.

Different banks have different auxiliary records for giving "first aid" to their credit department. For instance, the First Trust and Savings Bank of Canton, Ohio, finds a summary of statements (Insert I) helpful in keeping tab on the condition of any customer. It provides for annual figures covering a period of seven years. The reverse of the sheet gives the maximum and minimum balances and loans for seven years. This arrangement has proved especially valuable by contrasting the relative size of balances and loans for analysis at a glance. Records of this sort are doubly effective in keeping track of commercial accounts. They show the value of each account and also give a history of what it has meant to the loan department of the bank.

In order to get statements in from customers promptly, another Ohio bank has an alphabetical card record of dates showing when statements are

UNION COMMERCE
National Bank
OF CLEVELAND

Dear Sir:

In the annual revision of our credit files, we find that the last financial statement of your company showed its condition at December 31, 1917. This statement further shows that you regularly close your books on December 31 of each year. We assume, therefore, that you have completed another fiscal year, and we are accordingly enclosing our regular Clearing House form with request that you furnish us statement as shown at the last closing of your books.

The regulations of the Federal Reserve Act require that in order to render paper discounted by National Banks eligible for rediscount, the discounting bank must secure financial statements at least once each year. We ask, therefore, that as soon as your annual statement is available, you give us the information sought, answering the different questionnaires whenever possible.

To comply with the Federal Reserve Act, it is very necessary that we be supplied with the profit and loss statement, and reconciliation of surplus, set forth in page 2 of our blank.

Very truly yours,

Vice-President

Figure 11: Many bankers have found it difficult to obtain annual financial statements from some of their customers. Here is a letter that has effectively overcome this "bugaboo" for one bank. Personally signed, it accomplished the desired results in many instances.

**Copy of a Resolution Passed by
THE CLEVELAND CLEARING HOUSE ASSOCIATION
At a Meeting Held on August 4, 1915
Cleveland, Ohio**

WHEREAS, The Federal Reserve Board under its regulation "B," in order to readily determine whether paper offered by its member banks is eligible for rediscount, requires that each bank maintain a file containing original signed statements of the financial condition of borrowers, or true certified copies thereof, designating where the original statement is on file, and specifies that the following information shall be contained in these statements:

- A**—The nature of the business or occupation of the borrower.
- B**—If an individual, information as to his indebtedness and his financial responsibility.
- C**—If a firm or corporation, a balance sheet showing quick assets, slow assets, permanent or fixed assets, current liabilities and accounts, short-term loans, long-term loans, capital and surplus.
- D**—All contingent liabilities such as indorsements, guarantees, and so forth.
- E**—Particulars respecting any mortgage debt and whether there is any lien on current assets.
- F**—Such other information as may be necessary to determine whether the borrower is entitled to credit.

WHEREAS, The Federal Reserve Bank of Cleveland has compiled suggested forms of financial statements to be required from each of the different classes of borrowers, and has submitted copies of these to each member bank, with the recommendation that the establishment of the necessary credit files be immediately begun; and

WHEREAS, a compliance with these requirements not only is necessary in order that the member banks may avail themselves of the aid offered by The Federal Reserve Bank in case of need, but is recognized and regarded as fundamental in the establishing and maintaining of a competent department of credit, in connection with the making and handling of commercial loans,

THEREFORE, BE IT RESOLVED, by The Cleveland Clearing House Association, that its bank members cooperate to the fullest extent in the action recommended by The Federal Reserve Bank, and that to this end, the suggested forms of financial statement, or forms similar thereto, be accepted as a standard; that copies be filed with each commercial borrower, and competent statements be required from each, and that in future such statements be required periodically.

FURTHER, in order that the other local banks and trust companies, not members of The Federal Reserve Bank, may be enabled to avail themselves, as far as possible, of this rediscount privilege through their correspondent banks who are members of The Federal Reserve Bank, to the end that our entire business community may be directly benefited in time of need, be it

FURTHER RESOLVED that they be earnestly requested to cooperate in this movement—to adopt the suggested forms of financial statements as their standard—to file copies with each of their commercial borrowers, and require from each a competent statement periodically—and to so arrange their files that the eligibility of their line of commercial paper to rediscount by their correspondent with The Federal Reserve Bank may be readily determined.

Figure 12: With the letter which a Cleveland bank sends to customers urging them to furnish an up-to-date statement of their financial condition, goes this statement emphasizing the value of keeping the bank informed of their standing. It has produced satisfactory results.

NAME			ADDRESS				R. F. D. NO.		
Owns Acres	Rents Acres	Box	Check- ing	Certifi- cate	Savings	Xmas	Savings Bank	Paper	Calen- dar
WIFE								Collaterals	Help
CHILDREN									

DATE	SPIRIT	REMARKS

Figure 13: Investigation indicates that there are numerous sources from which a banker may gather information to help him determine a borrower's credit. A number of them are shown on this "new business" card record, the front and reverse of which are illustrated.

due (Figure 10). Some concerns close their books in December, some in January, some in July, and so on. Guide tips at the tops of the cards enable the credit manager to tell what month he should expect a statement from any firm. As he receives each one he places a checkmark under the year. This shows just how complete a record the bank has of each customer's business figures.

The bank in addition enters on the card the name of the officer of the customer company, to whom requests for statements are to be sent. This is a time-saving item because the bank has the assurance that the request will be given prompt attention. Should an officer of the bank wish any additional information at any time, he has simply to refer to the company's card and get in touch with the man whose name is recorded on the card.

If the bank fails to receive an annual statement after a reasonable length of time, it sends out a reminder letter (Figure 11) which courteously explains why a statement is necessary. "This letter has been of great assistance to us in keeping our files up to date," says the credit manager. With each letter he sends a copy of the local clearing house resolution (Figure 12) covering this point. The resolution has been instrumental in saving time on inquiries.

E. D. Patrick, president of the First National Bank, of Marengo, Illinois, which is located in a farming community, makes it a point to get out among the farmers, not only to secure new accounts but to size up credit risks. His "new business" card record for each farmer customer or possible depositor, which is reproduced on page 20 (Figure 13) is of considerable value in making decisions on loans. It serves as a very convenient check-up on what a present borrower or a possible later customer is doing. By carefully keeping this record and referring to it from time to

time the credit officer is enabled to gather facts that back up other credit information. The front of the card, for instance, shows how many acres the farmer owns or rents, the amount of any certificates or accounts in his name, and so on. On the reverse the banker notes the results of each call as he passes through the country. Under "spirit" he registers the farmer's outlook on his business. This affords a fairly good analysis of his progress and mental attitude.

This and other plans to be described in following chapters help to put the credit work on a desirable basis. They make the organization more perfect and tend to minimize credit losses. And that is the mission primarily of the credit department.

CHAPTER II

SIMPLIFYING THE CREDIT OFFICER'S DUTIES

A CREDIT manager has so much analytical work to do in sizing up all the facts and figures of a credit risk that his auxiliary records must be immediately available at all times. Only by simplifying his duties to the fullest extent can he handle his problems with reasonable safety and to advantage. That is why credit men in progressive banks are using every time-saving facility possible to lighten their work.

In other words, the fact that there is a credit department may not mean a high standard of organization unless the credit man is surrounded by competent help, systematic recording devices, and any other means which will enable him to give his attention to the real facts behind the depositor's statements that come to him. For, after all, it is the man behind the figures that the credit head has to consider always.

It is necessary, therefore, to have the facts in easily usable form. As stated in the previous chapter it matters not whether the bank is large or small. In a small bank where help is limited, it is all the more essential to save the time of the officer who acts as the credit manager, for he is burdened with the responsibility of acting as a clearing house for credit information secured from many sources. To him the other officers look for credit analyses of all customers and for every fact regarding borrowers. It is up to him to have a system of operation that will permit of quick reference and quick conclusions.

Capable clerical help should be selected to give the proper assistance in keeping accurate records. A mistake in figures or an inaccurate notation on any record card or in any offering book might mean the loss to the bank of thousands of dollars. Like the retail store which offends and perhaps loses a customer by sending out goods "c. o. d." when they should have been charged, one error of the credit manager may mean a disgruntled depositor or a customer lost.

From this standpoint a large bank has even a bigger problem than its smaller neighbor, because it is necessary to train perhaps a hundred helpers in contrast to a possible two or three. The credit man in a small bank is closer to his community. He knows many of his borrowers in a personal and social way. Therefore, it is not so difficult to keep tab on the correctness of his records. On the other hand, he has to guard, for that very reason, against carelessly allowing his records to fall below the required standard of safety, or to be neglected altogether. Likewise he has to be careful that he does not allow personal friendship to sway his judgment. Even if the bank plays safe for awhile, its future is at stake, and the credit officer of a bank who fails to have adequate records of his borrowing customers, especially those who are getting accommodation on unsecured paper, may be doing his institution a great injustice. For instance, in the event of his death it might be impossible to get any practicable or satisfactory line on what credit customers are entitled to without laboriously going through all of the transactions of the loans and discounts department for several years.

Investigation shows that in some banks the work of the credit department is often organized into definite divisions—certain of the employees do nothing but file documents and papers, others handle all the indexing, while others do all the investigating. This

[illegible]

Figure 14: This compact card record used by an eastern trust company is valuable for keeping track of loans involving large amounts, as it provides for yearly comparisons of the customer's condition.

[illegible]

Figure 16: This form is of great service to one bank in keeping the proper balance on loans. All loans made or paid are entered under the columns "in" or "paid." The amounts paid are entered in red.

To the UNION TRUST COMPANY,
ROCHESTER, N. Y.

I hereby certify that the following is a true and correct copy of
resolutions duly adopted at a meeting of the Board of Directors of _____
_____ held at _____
_____ Rochester, N. Y., on the _____ day of _____
_____, 19 _____ a quorum then being present:

RESOLVED, That the Union Trust Company of Rochester be named one of
the depositories of this Company and that funds so deposited be withdrawn only
upon the check, draft, note or order of the Company signed by the President or
Treasurer whose signatures have been duly certified to the Union Trust Company
and the said Trust Company is hereby authorized to pay such checks, drafts,
notes or orders, and also to receive the same for the credit of or in payment
from the payee or any other holder when so signed, without inquiry as to the
circumstances of their issue or the disposition of their proceeds, whether drawn
to the individual order of, or tendered in payment of individual obligations of,
the officers above named, or other officers of this Company or otherwise.

RESOLVED, That the President or Treasurer be and they respectively
are and shall be now and hereafter authorized to effect loans and advances at
any time for this Company from the Union Trust Company of Rochester, N. Y.,
and for such loans and written obligations or evidence of indebtedness of this
Company, each note or other evidence of indebtedness to be signed by the
President or Treasurer, and as security for the payment of any and all loans,
advances, indebtedness and liabilities of this Company to pledge, hypothecate,
assign, transfer, indorse and deliver any and all stock, securities, commercial
paper, bills receivable, accounts receivable, claims or (and) other property at
any time held by this Company; also that the President or Treasurer is
authorized to sell to or discount with the said Union Trust Company any and all
commercial paper, bills receivable, accounts receivable and other instruments
and evidences of debt at any time held by this Company and to that and to
indorse, assign, transfer and deliver the same.

RESOLVED, That all loans, discounts, notes and advances heretofore
obtained upon behalf of this Company or held by the said Union Trust Company
and charged against this Company on the books of the said Union Trust Company
and any now held by said bank are hereby approved, ratified and confirmed.

Secretary

Dated at Rochester, N. Y.

19 _____

(Impress with
corporate seal)

Figure 15: In order that there may be no misunderstanding regarding
the authority of customer officials to apply for credit, sign notes, or
draw checks, one bank furnishes each depositor firm with a form of
this sort, which safeguards the bank from exceeding its authority.

definiteness of organization is of great assistance to the credit manager. The responsibility for all effort is distinct and clearly understood. This leaves the credit man free to perform his executive and analytical duties unhampered by worry over details. This applies equally to the credit officer of the small bank, even though he may perform some of the routine work himself. The fact that he has strengthened his judgment with records simplifies his work to that extent.

SOMETIMES A CLASSIFICATION LIKE THIS WILL SIMPLIFY
YOUR WORK AND SHORT-CUT ROUTINE

One bank shortens its routine still further by placing all the paper it carries in two distinct classes, the notes of its own customers and the purchases it makes in the open market. Each has a separate file so that the credit manager can refer to any borrower's folder almost instantly. The regular customer file is subdivided by guide cards to cover these types of accommodation: Time loans; demand loans; collateral loans; real estate; and farm loans. Classifying the paper thus helps to simplify the credit routine. This subject is covered more fully in Chapter IV.

The credit manager of the Union Trust Company of Rochester, New York, uses a card 5 by 8 inches to record all the principal facts regarding a loan and he finds it of great value because of its simplicity and compactness (Figure 14). This card is worth detailed comment, for it has several unusual features. Notice that it has spaces for entering the amount of credit allowed and also the name of the customer who introduced the borrower. Then, in convenient order are headings to show not only the average balance and the maximum loan, but also the date of the last statement, the capital and surplus, the quick assets and current liabilities, and the agency report figures for general comparison and verification.

If collateral has been carried at any time to cover loans to the customer, a note of it has been made on the back of the card. This list of collateral is often an index to the character and judgment of the borrower and gives the credit man a quick and helpful insight into the risk. The card is of still greater value because it shows not only the amount of straight commercial loans carried, but the indorsed paper, if any, as well. For example, all straight notes are represented by black figures on the lines of the form under "maximum loan," while the indorsed paper is designated by red figures in the half space just above the black. Ordinarily this comprehensive record is kept only for loans of over \$500, as loans to individuals under that amount, in the opinion of the bank's officers, do not require so much clerical attention.

Another plan that simplifies the work of the credit manager in this bank is that of getting each firm or corporation to legalize the handling of its deposit. Often the bank accepts an account, registers the names of those entitled to sign checks, and lets it go at that. But this has proved to be unwise especially where any legal question arises regarding the authority of company officers to disburse funds. To settle all uncertainty, the Rochester bank has had typewritten copies prepared of a resolution (Figure 15) covering this point, and the credit manager hands them to new and old depositors to be filled in and returned. Gradually a signed resolution is coming into the credit files for each customer, thus safeguarding the bank's interests as well as the customer's.

The credit manager has a definite understanding of his authority and responsibility. His judgment goes on small loans except when some unusual condition or emergency arises. Applications for new loans or for increased lines of credit of over \$1,000, however, go the discount committee for its approval. A type-

written report covers the details so that the credit manager easily takes care of the routine. In order to keep the work from getting behind, the committee meets at least once a week. It is composed of six directors so that a quorum of four can usually be depended on to be present. The bank finds this a better plan rather than to have a committee of only three directors, who might not always be able to attend. The chairman of this committee rotates at each meeting so that the freest discussion is encouraged. An arrangement like this gives the credit manager the cooperation that really assists him in clearing away his work promptly.

A BANK HAVING A CONSIDERABLE VOLUME OF CREDIT
WORK WOULD PROBABLY FIND THIS PLAN HELPFUL

In some banks the discount committee meets every day and passes on practically all loans, thus making it possible for the credit manager to dispose of his offerings each day. Where the amount of paper handled is large this is considered a wise plan. Besides, the chances are greater for satisfying borrowers.

Similarly, progressive banks arrange to have their discount committees pass promptly on new lines of credit or changes of any sort in them. This enables the credit manager to keep his records up to the minute. As a result, if a borrower wishes accommodation, the credit officer can immediately recommend or even make the loan without referring the application to any other officer. This simplifies the work and emphasizes the importance of having every customer's credit clearly defined and up to date. Customers appreciate progressive treatment.

Another banker uses an "in" and "out" balance sheet to simplify further his records so that he may quickly see for himself and for the discount committee the trend of credits. This balance sheet (Figure 16)

has the two headings, "in" written in black and "paid" written in red, to show the amount of loans made and the amount paid each day. These are listed under alphabetical headings to make the work as light as possible. A glance at this record indicates whether the bank is maintaining the proper balance in loans and points to future decisions.

The credit manager of a western bank has lessened the routine of his duties by devising a combination record and folder for each depositor, somewhat along the lines of those described in Chapter I. This folder (Insert II) is shown open, together with an illustration of the front page. The statement summaries are entered on these inside covers. All other information is inserted in the folder and the complete record is filed alphabetically for reference. If the customer wants a loan, the credit manager makes a note of it and turns the whole folder over to the discount committee. The value of such a plan is readily apparent. It saves time in recording any new statement and makes the whole record instantly available. A bank in the Northwest, which keeps each borrower's record in a folder, enters the information under these headings:

1. Statements
2. Information from other banks
3. Answers to inquiries from other sources such as suppliers
4. Agency reports
5. Correspondence
6. Trade reports

The credit manager can thus keep each folder in order and easily up to the minute. If an offering is to go to the discount committee the folder is ready. This saves confusion and makes the work of the credit manager less difficult.

NAME	
	Fiscal Year
	Cash
	Bills Receivable
	Accounts Receivable
	Merchandise
	Raw Material
	TOTAL QUICK ASSETS
	Real Estate, Buildings
	Machinery and Fixtures
	TOTAL SLOW ASSETS
	TOTAL ASSETS
	Bills Payable
	Accounts Payable
	TOTAL QUICK LIABILITIES
	Bonds or Mortgage Debt
	TOTAL LIABILITIES
	RATIO QUICK ASSETS TO LIABILITIES
	EXCESS OF QUICK ASSETS OVER LIABILITIES
	NET WORTH
	Preferred Stock
	Common Stock
	Surplus
	Book Value Common Stock
	Gross Business
	Gross Income
	Expenses
	Net Income
	Dividends Paid
	Dividends Accumulated but Undistributed

INSERT II

Insert II: Here is an effort to summarize the front page of the form of all information about a business and its financial preliminary facts covered by the form.

A bank in the West has found that its clerks and bookkeepers make valuable assistants for the credit manager in compiling information, especially about newer arrivals in the community. Each employee

MAR.		JUN.		SEP.		DEC.	
Maker				Address			
Assumed by				Address			
Date of Loan				Date Due			
Loan Number				Interest Due		Rate %	
THE GUARDIAN TRUST AND SAVINGS BANK OF TOLEDO							
Date	Principal		Payments		Balance		Interest

Figure 17: An Ohio bank finds this card record useful for keeping track of its loans, as it shows the important facts of each transaction. The tabs at the top, for the months, help in finding maturity dates quickly.

keeps in mind any news or facts he learns regarding people in the community so that he can turn them in to the credit officer, whenever called upon to do so. For instance, when a man applies for a loan, each employee is asked to fill out a card which reads:

Do you know applicant personally?

By reputation?

What do you estimate to be his net worth?

Is he attentive to business?

Do you consider the moral risk good, fair, or indifferent?

As an auxiliary member of this bank's loan committee, how much do you feel justified in advising us to lend?

Additional information or remarks.

When the cards are ready, the credit department has a line-up of about 20 opinions which serve to clarify the discount committee's judgment of the application, as well as to strengthen the credit manager's information. The cards go to the file and occasionally an employee will be able to add additional information to his original answers. This auxiliary information helps the credit officer to detect misrepresentation on the part of applicants, who sometimes unconsciously exaggerate their resources in their zeal to obtain funds.

A Toledo bank has a loan "tickler" card file (Figure 17) which is valuable to the credit manager or other officers. It shows the condition of loans instantly and thus saves time. The general facts of each transaction also are set forth completely enough, on these cards, so that often the credit manager has all the information he needs for making a decision without referring to the customer's credit folder. The tabs for the months serve to indicate the approximate date of maturity.

Those and other record helps described in this book and in the volume on loans and discounts give the credit manager the necessary assistance to simplify his routine. And it is, admittedly, important for him to be furnished with every facility for perfecting his work. The life of the bank depends largely on how well he looks after all of the credit activities.

CHAPTER III

WORKING WITH THE DISCOUNT COMMITTEE

EVERY officer of our bank handles credits according to the lines of credit previously agreed upon by our board of directors, which comprises our discount committee," says F. F. Tillotson, assistant cashier of the Dime Savings Bank of Detroit. "This plan gives every lending officer full power to make loans to regular depositors without consulting the judgment of any other officer. Our records are usually so complete that we do not have to hold up a loan until the directors meet, which is twice a week.

"If an emergency does arise, the analysis of each customer has been made so completely that each officer in most instances is able to make a decision as he sees fit. His judgment is often final. It is the credit department's analysis of borrowers that relieves the directors of much detail work. This in turn speeds the lending routine and saves time and money."

The experience of this bank is true of others in which the credit department makes a thorough, exhaustive, and searching investigation and analysis of every depositor's and applicant's financial standing and capacity. Lower-priced help thus handles details and minimizes the duties of high-priced officials and members of the discount committee. Concise analysis, as more carefully covered in Chapter VI, is the only safe course to pursue in handling loans. Experience, bankers have found, proves the fallacy of taking anything for granted about a depositor.

A Michigan banker, who considered his own judgment sufficient to guide him in making loans, one day received a personal plea from a lifelong friend for a loan of \$10,000.

"I've got a wonderful opportunity to make double the amount I want by investing in some western property," argued the applicant, who was himself in the banking business in a neighboring village. "It's positively a sure thing. We can't lose. You're safe absolutely in signing the note with me. Doesn't \$5,000 clear gain look good to you, Will?"

The banker had no credit organization. He judged his friends by his personal relationship with them, and carried his records of their worth in his head. He was flattered by the "friendship" of his neighbor.

"Yes, John, your word is good. You can have the money if you want it."

And the note went through. But the borrower never made good. The bank lost every penny of the \$10,000 and the cashier who granted the credit, of course, eventually had to make up the loss.

Contrast this with what probably would have happened in this instance had the bank conducted its credit routine on a definite basis, with the added safeguard of an active discount committee. The borrower would have been required first to furnish a statement. Then he would have been asked to submit to an investigation. Later, if the conditions warranted, he would have been granted a line of credit—not on personal friendship, but on exact knowledge.

The actual illustration may seem exaggerated, and yet, notwithstanding the helpful influence of the Federal Reserve regulations, banks today in some localities lend by similar methods. Too much emphasis cannot be placed on the necessity of analyzing carefully all applications, no matter whether received by a large or a small bank. Then the work of the lending

officers and of the discount committee will be more satisfactory. This does not mean, of course, that the borrower is to suffer embarrassment. When he understands that every applicant, no matter how long he has known the cashier or the president, must fill out the same kind of statement and furnish just the same sort of information, he usually sees the justice of the newer rules of banking. Smaller banks undoubtedly find this task harder because of the personal acquaintanceship. But there are ways to "break the ice."

ONE PROGRESSIVE BANKER USES A PLAN LIKE THIS TO GET
FINANCIAL STATEMENTS FROM CUSTOMERS

For instance, a banker in the Northwest, whose customers include a number of small merchants and farmers, has been uniformly successful in getting statements and information for the discount committee by explaining to them the requirements of the Federal Reserve System. He shows how he can accommodate them to best advantage only by having paper that the reserve branch will accept for rediscount. To impress this further and also to save time, he has the financial statement blanks printed in duplicate. Then he asks each customer to fill one out, explaining that the original will go to the Federal Reserve branch, should the paper of this borrower be rediscounted, and the duplicate to the bank's files. Borrowers, in this way, easily fall into the more businesslike way of cooperating with the bank, and the credit officer has original statements to file with the Federal Reserve branch when sending paper to it for rediscount. This plan also assures the discount committee of more accurate analyses of all customers' financial condition.

In many banks complete summarized analyses are all the more necessary because the volume of business may not seem large enough to warrant daily meetings of the discount committee. For weekly or semi-

weekly meetings it is important to conserve time. Therefore the credit officer whose records are complete is the most valuable to his bank. Doubly so, if he makes applicants see the "whys" and "wherefores."

"We want to make our attitude plain no matter whether the decision is favorable or unfavorable," says one credit manager. "In fact, we believe it pays in the long run to be painfully frank if need be. We tell our customers their weak points even though it hurts and they resent it for a time. In numerous cases, however, these depositors have returned to us and brought us more profitable and more desirable business than before. They have gained by our advice and have been honest enough to say to us: 'You were right, and we've profited by what you told us even though we didn't want to hear it.'"

Classifying credits also is a help to the discount committee. The various elements of risk in different lines of business—the dangers likely to accompany lending to this or that concern—are important to consider, and offerings arranged and classified to best advantage are much easier for the discount committee to go over than if presented without regard to any classification. Methods which have proved valuable in handling this phase of credits are described more fully in Chapter IV.

Beyond these points the discount committee always naturally wants to have its work safeguarded to reduce chances of loss to a negligible minimum. Of course, exhaustive investigation of every business helps to make commercial loans safe, and Chapter VIII goes into this subject in detail. Thorough investigation, together with careful regard for all other details, makes the possibility of unfortunate decisions rarer than otherwise would be the case.

Auxiliary reports of credit agencies and similar information give the committee an additional basis to

work on in guarding against extending credit to risks that look good on their face but show unexpected weak spots after the facts from every source have been carefully gone over. Often commercial loans to customers represent about 60% of the total loans, so it is important and essential to know that every one of these loans is sound.

Commercial paper may represent 20% of the total loans outstanding, so that every fact regarding the responsibility back of it must also be learned during the 10-day option on purchases usually given by note brokers. The credit department narrows the discount committee's work by having this information just as complete as it is possible to get it. The offerings should include reports from the maker's bank, from business houses in the same line, from mercantile agencies, and the like. These sources of information are not necessarily infallible, as bankers know, and the only safe judgment possible for a committee is that arrived at by having several sources, in order to check one against the other. Small banks need these checks just as much as large banks do.

THIS TENDENCY SHOULD BE WATCHED CLOSELY BY
EVERY OFFICER INTERESTED

By having all offerings carefully classified the committee forestalls one great danger in lending—that of accepting too many risks of the same kind. Loans in too large an amount should, of course, never be made to businesses in the same line of selling, manufacturing, or distributing. Otherwise a slump in that one market might lead to grave dangers.

It is needless perhaps to warn against lending to oneself in banking. Yet, even today investigation indicates a tendency for banks to lend to themselves in roundabout ways. Perhaps the committee makes a loan to a stockholder who in turn lends it back to

the bank. All this temptation to take chances by devious ways is eschewed by progressive banks. One investigation disclosed the fact that "self-loans" caused 214 out of 418 bank failures.

Some credit departments make it easier for their discount committees by "coding" their reports in various ways. For instance, an Ohio credit manager puts a red tab on the edge of all offering books containing what he considers unfavorable risks. Favorable offerings have a blue tab to distinguish them, while applications on which he gives no recommendation are unmarked. This makes it easy for the committee to size up the work for each session. Some banks use red paper for unfavorable reports of any sort regarding a borrower. Other methods of a similar nature save credit officers the time and inconvenience of going through a mass of information.

A form that has minimized one credit committee's work is reproduced in Insert III. Both the back and reverse sides are arranged for entries. The card is of regular letter-file size and contains spaces for comparative statements of an individual or firm covering a period of seven years. If the risk is a firm the information includes the names of the members or partners. The record shows average balances at the bottom, and all information concerning loans on the reverse side. For correspondent bank customers a similar card (Insert IV) affords a worth-while compact record on the one side.

In still another bank all of the window officers and tellers comprise a "committee of the whole" to gather all possible information regarding customers or possible borrowers. The method used is similar to that of the Iowa bank described in Chapter I. If an officer hears a customer at the window make any remark that might be of value to the discount committee he jots it down casually on a tab he keeps on hand.

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INSERTS III AND IV

For instance, a farmer while cashing a check may tell of some new cattle he intends to purchase or he may announce that he is going to market his crop in "a couple of weeks." All this information may be of value to the credit department. Perhaps that same day the farmer applies for a loan. Does his application check up with the casual information he has given out? It is surprising how much help these wide-awake officers, trained to be on the alert for information like a newspaper reporter, give the discount committee.

Ideas like these may be adapted in whole or in part by other banks desirous of improving their credit methods. Or the plans outlined may suggest ways to make the work of the discount committee easier. Thus the committee obviously makes its services more valuable to the bank while still transacting the work in a shorter space of time.

CHAPTER IV

HOW TO CLASSIFY THE RISKS

A GRAND RAPIDS bank has a personal record file for all of its borrowers in addition to a classified history of each. The two sets of cards, alphabetically arranged, form an invaluable basis for indexing the records of the credit department, for the two complement each other. Consequently, if by any chance, a card should be misplaced in one file, sufficient information may be found on the other card of the same borrower to guide the lending officer in his decision. Thus he need not cause the customer any unnecessary delay.

In the volume on loans and discounts of this series is described in detail how the personal file operates to help the credit department and the lending officers. Other banks have similar records and handle them in various ways to promote effective results. One bank in the Middle West classifies the cards as favorable or unfavorable by putting a red tab on all the cards that contain records of customers who would probably make unfavorable risks. These danger signals are of great value especially at particularly busy hours of the day. When an applicant applies for a loan and the officer has his doubts about the risk he excuses himself for a moment and takes a "peep" at the personal file. If he finds a red tab on this customer's card, he loses no more time at the moment but promises to notify the customer as soon as possible if it is within the province of the bank to lend the money.

8

Name _____ Account opened _____ by _____

Address _____ Amount placed _____ by _____

Business _____ First Deposit \$ _____

Introduced by _____ Last Account kept with _____

Other Bank Accounts _____

President _____ Partners _____

Vice President _____

Secretary _____

Treasurer _____

Remarks: _____

NAME																							
YEAR				1917				1918				1919				1920				1921			
Active A.								0.50	—														
Cor. Liab.								1.00	—														
Bur. A. A.								1.50	—														
Other A.								0.00	—														
B. or Merit								5.00	—														
Net Worth								6.50	—														
Capital								5.00	—														
Surplus								1.50	—														
Ratio								2 1/2 - 1															
				Av. Bal.	Max. L. and Min. Cts.	Min. L. and Max. Cts.	Av. Bal.	Max. L. and Min. Cts.	Min. L. and Max. Cts.	Av. Bal.	Max. L. and Min. Cts.	Min. L. and Max. Cts.	Av. Bal.	Max. L. and Min. Cts.	Min. L. and Max. Cts.	Av. Bal.	Max. L. and Min. Cts.	Min. L. and Max. Cts.	Av. Bal.	Max. L. and Min. Cts.	Min. L. and Max. Cts.	Av. Bal.	Max. L. and Min. Cts.
Jan.				L	L	25	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Feb.				L	L	12	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Mar.				L	L	10	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
April				L	L	5	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
May				L	L	25	L	L	L 50 - L 50 -	L	L	L	L	L	L	L	L	L	L	L	L	L	L
June				L	L	10	L	L	L 50 - L 50 -	L	L	L	L	L	L	L	L	L	L	L	L	L	L
July				L	L	5	L	L	L 50 - L 50 -	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Aug.				L	L	15	L	L	L 50 - L 50 -	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Sept.				L	L		L	L	L 100 - L 100 -	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Oct.				L	L		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Nov.				L	L		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Dec.				L	L		L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Av. for Year																							

Figure 18: This card (front and reverse) enables the credit department of an Ohio bank to keep a complete record of each customer, classified by number according to the type of business. Thus "No. 8" at the top of a card identifies it with that particular business division.

FINANCIAL STATEMENT

INDIVIDUAL

NAME _____

ADDRESS

TO UNION COMMERCE NATIONAL BANK, CLEVELAND, OHIO

FOR THE PURPOSE OF SECURING CREDIT FROM TIME TO TIME WITH YOU, FOR MY NEGOTIABLE PAPER OR OTHERWISE, I FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF MY FINANCIAL CONDITION ON 19 _____ AND HEREBY AGREE TO NOTIFY YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN MY FINANCIAL CONDITION. IN THE ABSENCE OF SUCH NOTICE OR A NEW AND FULL WRITTEN STATEMENT, THIS IS TO BE CONSIDERED AS A CONTINUING STATEMENT, AND THAT MY PECUNIARY RESPONSIBILITY HAS NOT FALLEN BELOW THE CONDITION HEREIN SET FORTH.

(In the absence of any amount, insert cipher in statement forms. Answer all questions on following pages. Use the words "Yes," "No" or "None" when they will answer the questions correctly. Sign at bottom of fourth page.)

ASSETS	DOLLARS	CENTS	LIABILITIES	DOLLARS	CENTS
CASH ON HAND AND IN BANK			NOTES OWED BY ME—WITHOUT SECURITY		
ACCOUNTS DUE ME—GOOD			NOTES OWED BY ME—WITH SECURITY OTHER THAN REAL ESTATE		
UNSECURED LOANS DUE ME—GOOD			NOTES OR MORTGAGES OWED BY ME—WITH REAL ESTATE AS SECURITY		
SECURED LOANS DUE ME			NOTES OWED BY ME—WITH CHATTEL MORTGAGE AS SECURITY		
MORTGAGE LOANS DUE ME			ACCOUNTS OWED BY ME		
FARM PRODUCTS ON HAND			ITEMIZE ANY OTHER INDEBTEDNESS		
LIVE STOCK ON HAND					
LAND					
BUILDINGS					
FARM IMPLEMENTS AND MACHINERY					
ANY OTHER PROPERTY OR INVESTMENTS—ITEMIZE					
			TOTAL LIABILITIES		
			NET WORTH		
TOTAL			TOTAL		

CONTINGENT LIABILITY OF ANY KIND

ON NOTES OF OTHERS INDORSED BY ME		
AS GUARANTOR FOR ACCOUNTS AND NOTES OF OTHERS		
ON NOTES EXCHANGED WITH OTHERS		
AS BONDSMAN OR SECURITY FOR OTHERS		
FOR LEASES		
OTHER THAN ABOVE SPECIFIED		
	TOTAL	

DETAILS RELATIVE TO ASSETS AND LIABILITIES

LAND AND BUILDINGS:

[illegible]

BY WHOM APPRAISED? _____ WHEN? _____

TAXES PAID TO WHAT DATE? _____

Figure 19: Not only do the financial-statement forms shown here and on succeeding pages illustrate an important method of classifying credits according to individuals, partnerships, and corporations, as outlined on page 54, but they also indicate how thoroughly some banks

IS THERE ANY OTHER PERSON INTERESTED IN YOUR BUSINESS, EITHER AS SPECIAL OR LIMITED PARTNER? _____

ARE YOU A PARTNER IN ANY FIRM? _____

ARE THERE ANY JUDGMENTS UNPAID, OR SUITS PENDING AGAINST YOU AND FOR WHAT AMOUNT? _____

IS YOUR LIFE INSURED? _____ AMOUNT? _____

WHO IS THE BENEFICIARY? _____

HAVE YOU ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS? _____

GIVE DETAILS _____

WHAT IN YOUR OPINION IS THE NET WORTH OF EACH INDORSEER ON YOUR NOTES? _____

ARE ANY OF YOUR ASSETS, OTHER THAN REAL ESTATE, MORTGAGED OR HYPOTHECATED IN ANY WAY? _____

NOTES OWED BY ME:

To Whom Given	Amount	Date	When Due	Interest Rate	Description of Securities Pledged
	\$				

ACCOUNTS OWED BY ME:

To Whom	Amount	When Due	For What
	\$		

LIVE STOCK ON HAND			FARM PRODUCTS ON HAND		
Description	Number of Head	Value	Description	Quantity	Value
		\$			\$

I HEREBY SOLEMNLY DECLARE AND CERTIFY THIS TO BE A TRUE AND CORRECT STATEMENT OF MY FINANCIAL CONDITION AT THE CLOSE OF BUSINESS _____ TO _____

(SIGN HERE) _____

DATE _____ TO _____

gather credit information and how they classify it. For instance, on these two pages are the points that a bank wants to know about an individual borrower—say a farmer. Aside from the usual items, the statement calls for facts regarding real estate, farm equipment and so on.

It is readily apparent how much time and anxiety the red tabs save, especially under stress. Such a classification minimizes unnecessary delays during banking hours. It also enables the lending officer to appraise the borrower's worth quickly, without embarrassment. When the busy part of the day is over the application may again be taken up and the reasons for the unfavorable record gone over carefully to see whether it would be wise to grant the customer any credit at the present time.

The file also has a number of other time-saving subdivisions to enable the officers to find a card quickly. For instance, the names of doctors and lawyers are in one section, of manufacturers in another, of school teachers in another, of retail merchants in still another, and so on through to miscellaneous occupations.

Besides this personal file, almost every bank has some sort of classified history of all risks. Sometimes this history is in folders alphabetically arranged and sometimes on cards, while often banks maintain both records. The card classification of one bank, which supplements the personal file outlined at the beginning of the chapter, has proved most effective. Figure 18 shows the make-up of the cards, both front and reverse. They are 5 by 8 inches in size. Their arrangement is somewhat different from that often seen on cards, and for this reason it may offer valuable suggestions for keeping tab on borrowers.

Notice that the information called for includes the amount of the first deposit, the names of the chief officers, and a list of other bank accounts, if any. Plenty of room is reserved for remarks.

The reverse of the card contains spaces for entering brief comparative figures of the business for five years. It also includes columns for the average balances by months and the maximum and minimum loan and discount by months for the five years. The cards

FINANCIAL STATEMENT CLEVELAND CLEARING HOUSE ASSOCIATION FORM				INDIVIDUAL, MANUFACTURING OR MERCANTILE LINE			
NAME _____							
BUSINESS _____							
MAIN OFFICE _____				LOCATION OF PLANT _____			
BRANCHES _____							
TO UNION COMMERCE NATIONAL BANK, CLEVELAND, OHIO							
FOR THE PURPOSE OF PROCURING CREDIT FROM TIME TO TIME WITH YOU, FOR MY NEGOTIABLE PAPER OR OTHERWISE, I FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF MY FINANCIAL CONDITION ON _____, 19____, AND HEREBY AGREE TO NOTIFY YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN MY FINANCIAL CONDITION IN THE ABSENCE OF SUCH NOTICE OR A NEW AND FULL WRITTEN STATEMENT, THIS IS TO BE CONSIDERED AS A CONTINUING STATEMENT AND THAT MY PECUNIARY RESPONSIBILITY HAS NOT FALLEN BELOW THE CONDITION HEREIN SET FORTH. (In the absence of any interest, insert figure in statement form. Answer all questions on following pages. Use the words "Yes," "No" or "None" when they will answer the questions correctly. Sign at bottom of fourth page.)							
ASSETS		DOLLARS	CENTS	LIABILITIES		DOLLARS	CENTS
CASH ON HAND				NOTES PAYABLE FOR MERCHANDISE			
CASH IN BANK				NOTES PAYABLE TO BANKS			
NOTES RECEIVABLE OF CUSTOMERS—DUE WITHIN 90 DAYS				NOTES PAYABLE FOR PAPER SOLD			
NOTES RECEIVABLE OF CUSTOMERS—DUE BEYOND 90 DAYS				NOTES PAYABLE TO OTHERS			
ACCOUNTS RECEIVABLE OF CUSTOMERS				ACCOUNTS PAYABLE—NOT DUE			
MERCHANDISE—FINISHED				ACCOUNTS PAYABLE—PART DUE			
MERCHANDISE—IN PROCESS—UNFINISHED				DEPOSITS OF MONEY WITH ME			
MERCHANDISE—RAW MATERIAL				ANY OTHER CURRENT LIABILITIES—(Transfer on Page 2)			
OTHER ACTIVE ASSETS—(Transfer on Page 2)							
TOTAL ACTIVE ASSETS				TOTAL CURRENT LIABILITIES			
DUE FROM CONTROLLED, FOR MERCHANDISE OR ALLIED CONCERNS				MORTGAGES OR LIENS ON REAL ESTATE			
FOR ADVANCES				CHattel MORTGAGES			
STOCKS, BONDS AND INVESTMENTS				ANY OTHER LIABILITIES—Transfer			
LAND							
BUILDINGS							
MACHINERY, EQUIPMENT AND FIXTURES							
HORSES, WAGONS AND AUTOMOBILES							
				TOTAL LIABILITIES			
				RESERVES—Transfer			
GOOD WILL, PATENTS AND TRADEMARKS							
OTHER ASSETS—Transfer							
				NET WORTH			
TOTAL				TOTAL			
CONTINGENT LIABILITY OF ANY KIND							
UPON RECEIVABLES DISCOUNTED OR PLEDGED							
UPON ACCOMMODATION PAPER OR INDORSEMENTS							
UPON NOTES EXCHANGED WITH OTHERS							
CUSTOMERS' ACCOUNTS SOLD AND ASSIGNED							
AS GUARANTOR FOR OTHERS ON NOTES, CONTRACTS, AND SO ON							
FOR BONDS OR UNFINISHED CONTRACTS							
FOR LEASES							

Figure 20: On this and the next three pages is shown a slightly different type of statement than the one illustrated in Figure 19. It is a form for individuals engaged in manufacturing or mercantile lines; therefore facts must be included to cover the commercial points involved.

CONDENSED PROFIT AND LOSS STATEMENT FOR FISCAL YEAR ENDING _____ 19__

EXPENSE						INCOME					
COST OF MATERIAL OR MERCHANDISE CONSUMED						NET SALES					
ACTUAL EXPENSE OF CONDUCTING BUSINESS Including Rent, Taxes, Insurance, and so on						FROM INVESTMENTS					
SALARY DRAWN BY MYSELF						FROM DISCOUNTS ON PURCHASES					
INTEREST ON BORROWED MONEY						FROM OTHER SOURCES—Stocks					
BAD DEBTS CHARGED OFF											
DEPRECIATION CHARGED OFF											
NET PROFITS											
TOTAL						TOTAL					

RECONCILEMENT OF NET WORTH

NET WORTH AT CLOSE OF PREVIOUS FISCAL YEAR _____ \$ _____

LESS CHARGES NOT APPLICABLE TO CURRENT YEAR _____ \$ _____ - \$ _____

ADD NET PROFITS AS ABOVE _____ \$ _____ = \$ _____

LESS—WITHDRAWALS OTHER THAN SALARY AS ABOVE _____ \$ _____

NET WORTH—END OF YEAR _____ \$ _____

DETAILS RELATIVE TO ASSETS

CASH—NAMES OF ALL BANKS WHERE ACCOUNTS ARE MAINTAINED _____

ARE ANY ACCOUNTS SUBJECT TO NOTICE BEFORE WITHDRAWAL? _____ AMOUNT \$ _____

DONE THE AMOUNT REPORTED AS CASH ON HAND CONTAIN ANYTHING OTHER THAN LEGAL MONEY? _____

NOTES RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES? _____

REPRESENTS WHAT? _____

WHAT AMOUNT REPRESENTS OPEN ACCOUNTS SETTLED BY MONEY? _____ AMOUNT YOU PROBABLY

WILL NOT BE ABLE TO COLLECT? _____ AMOUNT OVERDUE? _____ AMOUNT

RENEWED OR EXTENDED? _____

ACCOUNTS RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES? _____

REPRESENTS WHAT? _____

AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT? _____ AMOUNT OVERDUE? _____

WHAT ARE YOUR AVERAGE TERMS OF SALE? _____

GIVE NAMES OF A FEW CONCERNING TO WHICH YOU SELL IN LARGE QUANTITIES. _____

MERCHANDISE—LAST INVENTORY TAKEN BY WHOM? _____ WHEN? _____

VALUED AT COST, OR MARKET PRICE AT DATE OF INVENTORY OR ON WHAT BASIS—FOR FINISHED? _____

FOR UNFINISHED IN PROCESS? _____ FOR RAW MATERIAL? _____ AMOUNT PLEDGED AS SECURITY? _____

ANY RECENTLY RECEIVED AND INCLUDED IN YOUR ASSETS FOR WHICH THE INVOICES HAVE NOT YET BEEN ENTERED

AS ACCOUNTS PAYABLE? _____

AMOUNT IN OUTSIDE WAREHOUSES? _____

AMOUNT HELD UNDER TRUST RECEIPT? _____ UNDER CONSIGNMENT? _____

IS STOCK FRESH AND SALABLE THROUGHOUT? _____ AVERAGE AMOUNT OF STOCK CARRIED? _____

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM? _____

STOCKS, BONDS AND INVESTMENTS—GIVE DESCRIPTION AND HOW VALUED: _____

MACHINERY, EQUIPMENT AND FIXTURES—ASSIGNED VALUE \$ _____

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM? _____

Figure 20 (pages 2 and 3): Here are illustrated several interesting points in making up a statement form. Note at the top the expense and income tabulation for quick reference, followed by a proof of net worth and all details regarding assets. Special attention is given

LAND AND BUILDINGS: { USED IN BUSINESS \$ _____
 OTHER \$ _____

Description and Location	Title in Whose Name	Assessed Value	Appraised Value	Mortgages	Insurance	Rentals Received During Last Fiscal Year
		\$	\$	\$	\$	\$

BY WHOM APPRAISED? _____ WHEN? _____

IF BOOK VALUE HAS DECREASED OR INCREASED DURING THE YEAR, ACCOUNT FOR SAME _____

HAVE YOU ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS? _____ GIVE DETAILS _____

OTHER ACTIVE ASSETS:—Items: _____

DUE FROM CONTROLLED OR ALLIED CONCERNS:

Name of Concern	Location	For Advances	Terms	For Merchandise	Terms
		\$		\$	

DETAILS RELATIVE TO LIABILITIES

NOTES PAYABLE—NAME YOUR BANKS AND BROKERS AND LINE WITH EACH: _____

WHAT TIME OF THE YEAR DO YOU BORROW OF YOUR BANKS? _____ THROUGH BROKERS? _____

STATE MAXIMUM AMOUNT BORROWED FROM ALL SOURCES DURING FISCAL YEAR JUST CLOSED \$ _____

DO YOUR BRANCHES OR ALLIED CONCERNS BORROW LOCALLY? _____ WHERE? _____

DO YOU BORROW CONTINUOUSLY IN OPEN MARKET? _____ FOR MERCHANDISE? _____

OTHERWISE? _____ AMOUNT OF YOUR NOTES PAYABLE SECURED BY COLLATERAL \$ _____

DESCRIBE THE COLLATERAL _____

ACCOUNTS PAYABLE—WHAT ARE YOUR AVERAGE TERMS OF PURCHASE? _____

DO YOU DISCOUNT? _____ ANTICIPATE? _____ NAME A FEW CONCERNS FROM WHOM

YOU PURCHASE IN LARGE QUANTITIES: _____

DEPOSITS OF MONEY WITH ME —ON TIME OR DEMAND? _____

FROM WHOM? _____ RATE PER CENT PAID? _____

CATTEL MORTGAGES—TO WHOM? _____ DATE OF MORTGAGE? _____ TERMS OF PAYMENT? _____

ON WHAT ASSETS A LIEN? _____ DOES IT REPRESENT A PART OF PURCHASE PRICE? _____

DOES IT REPRESENT BORROWED MONEY? _____

LEASES—ARE YOU LEASING ANY PROPERTY? _____ WHAT ARE THE TERMS OF THE LEASES? _____

to the data relative to merchandise, equipment, and so on. On the following page come all the facts covering land and buildings, both in and out of the business proper. Liabilities also have to be fully described in order to give the banker all the information he needs.

OTHER CURRENT LIABILITIES—(Stamper) _____

MISCELLANEOUS

INSURANCE—ON MERCHANDISE \$ _____ CREDIT \$ _____ LIABILITY \$ _____

LIFE \$ _____ WHO IS THE BENEFICIARY? _____

HOW LONG ENGAGED IN PRESENT BUSINESS? _____

WHAT AMOUNT OF CAPITAL DID YOU START WITH AND OF WHAT DID IT CONSIST? _____

WHAT AMOUNT OF CAPITAL HAVE YOU CONTRIBUTED SINCE? _____

IS THERE ANY OTHER PERSON INTERESTED IN YOUR BUSINESS EITHER AS SPECIAL OR LIMITED PARTNER? _____

ARE YOU A PARTNER IN ANY FIRM? _____

WHAT IN YOUR OPINION IS THE NET WORTH OF EACH INDORSER ON YOUR NOTES? _____

HAVE YOU ANY ASSETS, OTHER THAN REAL ESTATE, PLEDGED OR HYPOTHECATED IN ANY WAY? _____

ANY INDIVIDUAL DEBTS NOT INCLUDED IN THE STATEMENT? _____

ANY INDIVIDUAL ASSETS NOT INCLUDED IN THE STATEMENT? _____

TIME OF YEAR RECEIVABLES GENERALLY MAXIMUM _____ MINIMUM _____

TIME OF YEAR MERCHANDISE GENERALLY MAXIMUM _____ MINIMUM _____

STATE GROSS SALES FOR THE PAST THREE YEARS—19 ____ \$ _____ 19 ____ \$ _____ 19 ____ \$ _____

WHERE IS YOUR PRINCIPAL SALES TERRITORY? _____

IF YOUR BOOKS HAVE BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT, GIVE NAME OF ACCOUNTANT AND DATE OF AUDIT _____

ARE THERE ANY JUDGMENTS UNSATISFIED, OR SUITS PENDING AGAINST YOU, AND FOR WHAT AMOUNT? _____

GIVE DATE YOU REGULARLY TAKE INVENTORY AND CLOSE YOUR BOOKS _____

The foregoing statements and details pertaining thereto, both printed and written, have been carefully read by the undersigned, and I hereby solemnly declare and certify that same is a full and correct exhibit of my financial condition.

SIGN HERE _____

DATE SIGNED _____ 19 ____

NOTE: If you have any difficulty in filling in the foregoing statements and questionnaire, the Credit Department of this bank is prepared to extend you courteous and intelligent service; in fact, we solicit your cooperation and acquaintance with our credit methods.

Figure 20: The last page of the statement includes a fund of miscellaneous information of considerable value in sizing up the various tendencies of the borrower. With it all, the form is easy to read and arranged to enable the customer to fill it out without great difficulty.

themselves have proved worth while aside from their simple classification.

The bank divides the various lines of business of its customers under 20 heads, such as grocers, automobile manufacturers, department stores, steel companies, and so on. It keeps this classification by number and arranges all the cards in the file under subdivisions from 1 to 20. Each separate card has its proper number entered at the top center, precisely like the illustration. If the key shows that automobile manufacturers are number 1 in the classification, then each automobile manufacturer's card is identified instantly by the number 1 at the top. The clerks file the cards alphabetically under each subdivision. In practice, if a lending officer wants any information quickly about the Monarch Motor Company, he has only to look under M in division number 1 to find the desired card. Should by chance the card be misplaced, he still has the personal file covering the financial status of the individual officers to fall back on.

ANY PLAN THAT LESSENS THE ROUTINE AND REDUCES THE
CLERICAL EXPENSE IS WORTHY OF CONSIDERATION

The key number at the top of each history identifies it at once, so that a clerk can file it away properly in the least possible time. The file is of incalculable value in handling the day's credit work. Even a small bank would find such a classification worth while because it would minimize the routine of the lending officers.

These histories also come under a general classification in some banks just the same as the personal file. For instance, one bank divides the records by listing them under headings such as personal credits, mercantile credits, industrial credits, and so on. This general classification is particularly desirable for smaller banks which do not want too much system and division, but enough to simplify the work. Other

FINANCIAL STATEMENT			CORPORATION		
CORPORATE NAME _____					
BUSINESS _____					
MAIN OFFICE _____		LOCATION OF PLANT _____			
BRANCHES _____					
TO UNION COMMERCIAL NATIONAL BANK, CLEVELAND, OHIO					

FOR THE PURPOSE OF SECURING CREDIT FROM TIME TO TIME WITH YOU, FOR OUR NEGOTIABLE PAPER OR OTHERS, WE FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF OUR FINANCIAL CONDITION ON _____ 19____ AND HEREBY AGREE TO NOTIFY YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN OUR FINANCIAL CONDITION. IN THE ABSENCE OF SUCH NOTICE OR A NEW AND FULL WRITTEN STATEMENT, THIS IS TO BE CONSIDERED AS A CONTINUING STATEMENT, AND THAT OUR PECUNIARY RESPONSIBILITY HAS NOT FALLEN BELOW THE CONDITION HEREIN SET FORTH.

(In the absence of any amount, insert figures in statement form. Answer all questions on following page. Use the words "Yes," "No" or "None" when they will answer the questions correctly. Sign at bottom of fourth page.)

ASSETS	DOLLARS	CENTS	LIABILITIES	DOLLARS	CENTS
CASH ON HAND			NOTES PAYABLE FOR MERCHANDISE		
CASH IN BANK			NOTES PAYABLE TO BANKS		
NOTES RECEIVABLE OF CUSTOMERS—DUE WITHIN 90 DAYS			NOTES PAYABLE FOR PAPER SOLD		
NOTES RECEIVABLE OF CUSTOMERS—DUE BEYOND 90 DAYS			NOTES PAYABLE TO OFFICERS, DIRECTORS AND STOCKHOLDERS		
ACCOUNTS RECEIVABLE OF CUSTOMERS			NOTES PAYABLE TO OTHERS		
MERCHANDISE—FINISHED			ACCOUNTS PAYABLE—NOT DUE		
MERCHANDISE—IN PROCESS—UNFINISHED			ACCOUNTS PAYABLE—PART DUE		
MERCHANDISE—RAW MATERIAL			ACCOUNTS PAYABLE TO OFFICERS, DIRECTORS AND STOCKHOLDERS		
OTHER ACTIVE ASSETS—(Include on Page 2)			DEPOSITS OF MONEY WITH THIS COMPANY BY OFFICERS AND OTHERS		
			ANY OTHER CURRENT LIABILITIES—(Include on Page 2)		
TOTAL ACTIVE ASSETS			TOTAL CURRENT LIABILITIES		
DUE FROM CONTROLLED MERCHANDISE OR ALIEN CONCERNS (FOR ADVANCES)			MORTGAGES OR LIENS ON REAL ESTATE		
STOCKS, BONDS AND INVESTMENTS			BONDED DEBT		
LAND			CHattel MORTGAGES		
BUILDINGS			ANY OTHER LIABILITIES—(Include)		
MACHINERY, EQUIPMENT AND FIXTURES					
CARRIAGES, WAGONS AND AUTOMOBILES					
NOTES RECEIVABLE—DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES			TOTAL LIABILITIES		
ACCOUNTS RECEIVABLE—DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES			RESERVES—(Include)		
GOOD WILL, PATENTS AND TRADEMARKS					
OTHER ASSETS—(Include)			CAPITAL STOCK—PREFERRED OUTSTANDING		
			CAPITAL STOCK—COMMON OUTSTANDING		
			UNDIVIDED SURPLUS		
TOTAL			TOTAL		

CONTINGENT LIABILITY OF ANY KIND

UPON RECEIVABLES DISCOUNTED OR PLEDGED			
UPON ACCOMMODATION PAPER OR INDORSEMENTS			
UPON NOTES EXCHANGED WITH OTHERS			
CUSTOMERS' ACCOUNTS SOLD AND ASSIGNED			
AS GUARANTOR FOR OTHERS ON NOTES, CONTRACTS, AND SO ON			
FOR BONDS OR UNFINISHED CONTRACTS			
FOR LEASES			

Figure 21: It is especially advisable, bankers have found, to have a complete line-up of facts on the financial status of corporations. Here are the first two pages of a corporation statement. Note the variation in the items under assets and liabilities in contrast to the other forms.

CONDENSED PROFIT AND LOSS STATEMENT FOR FISCAL YEAR ENDING _____

EXPENSE				INCOME			
COST OF MATERIAL OR MERCHANDISE CONSUMED				NET SALES			
ACTUAL EXPENSE OF CONDUCTING BUSINESS Including Rent, Taxes, Insurance, and so on				FROM INVESTMENTS			
SALARIES PAID TO OFFICERS				FROM DISCOUNTS ON PURCHASES			
INTEREST ON BORROWED MONEY AND BONDS				FROM OTHER SOURCES—Items			
BAD DEBTS CHARGED OFF							
DEPRECIATION CHARGED OFF							
NET PROFITS							
TOTAL				TOTAL			

RECONCILEMENT OF SURPLUS

UNDIVIDED SURPLUS AT CLOSE OF PREVIOUS FISCAL YEAR \$ _____

LESS CHARGES NOT APPLICABLE TO CURRENT YEAR \$ _____

ADD NET PROFITS AS ABOVE \$ _____

LESS DIVIDENDS (PREFERRED (____ PER CENT) \$ _____

(COMMON (____ PER CENT) \$ _____

UNDIVIDED SURPLUS \$ _____

DETAILS RELATIVE TO ASSETS

CASH—NAMES OF ALL BANKS WHERE ACCOUNTS ARE MAINTAINED _____

ARE ANY ACCOUNTS SUBJECT TO NOTICE BEFORE WITHDRAWAL? _____ AMOUNT \$ _____

DOES THE AMOUNT REPORTED AS CASH ON HAND CONTAIN ANYTHING OTHER THAN LEGAL MONEY? _____

NOTES RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES? _____

REPRESENTS WHAT? _____

WHAT AMOUNT REPRESENTS OPEN ACCOUNTS SETTLED BY NOTES? _____ AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT? _____ AMOUNT OVERDUE? _____ AMOUNT RENEWED OR EXTENDED? _____

ACCOUNTS RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES? _____

REPRESENTS WHAT? _____

AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT? _____ AMOUNT OVERDUE? _____

WHAT ARE YOUR AVERAGE TERMS OF SALE? _____

GIVE NAMES OF A FEW CONCERNS TO WHICH YOU SELL IN LARGE QUANTITIES: _____

MERCHANDISE—LAST INVENTORY TAKEN BY WHOM? _____ WHEN? _____

VALUED AT COST, OR MARKET PRICE AT DATE OF INVENTORY OR ON WHAT BASIS—FOR FINISHED? _____

FOR UNFINISHED IN PROCESS? _____ FOR RAW MATERIAL? _____ AMOUNT PLEDGED AS SECURITY? _____

ANY RECENTLY RECEIVED AND INCLUDED IN YOUR ASSETS FOR WHICH THE INVOICES HAVE NOT YET BEEN ENTERED AS ACCOUNTS PAYABLE? _____

AMOUNT IN OUTSIDE WAREHOUSES? _____

AMOUNT HELD UNDER TRUST RECEIPT? _____ UNDER CONSIGNMENT? _____

IS STOCK FRESH AND SALABLE THROUGHOUT? _____ AVERAGE AMOUNT OF STOCK CARRIED? _____

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM? _____

STOCKS, BONDS AND INVESTMENTS—GIVE DESCRIPTION AND HOW VALUED: _____

MACHINERY, EQUIPMENT AND FIXTURES—ASSESSED VALUE \$ _____

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM? _____

The capital items must be included. The second page, too, is worth careful checking. Special spaces are reserved for a reconciliation of the surplus items. This is of interest to every banker for it shows exactly how this account stands. Then follow the details about assets

LAND AND BUILDINGS:

Description and Location	Title in Whose Name	Assessed Value	Appraised Value	Mortgages	Insurance	Rentals Received During Last Fiscal Year
		\$	\$	\$	\$	\$

BY WHOM APPRAISED? _____ WHEN? _____

IF BOOK VALUE HAS DECREASED OR INCREASED DURING THE YEAR, ACCOUNT FOR SAME _____

HAVE YOU ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS? _____ GIVE DETAILS _____

OTHER ACTIVE ASSETS—Stocks _____

DUE FROM CONTROLLED OR ALLIED CONCERNS:

Name of Concern	Location	Per Advances	Terms	For Merchandise	Terms
		\$		\$	

NOTES RECEIVABLE—DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES:

Name	Amount	Time or Demand	Date of Note	Due Date	Is It a Renewal Either in Whole or in Part?	Is It Secured?	How?
	\$						

ACCOUNTS RECEIVABLE—DUE FROM OFFICERS, STOCKHOLDERS AND EMPLOYEES:

Name	Amount	Date	Due Date	Is It Secured?	How?	Account Represents What?
	\$					

DETAILS RELATIVE TO LIABILITIES

NOTES PAYABLE—NAME YOUR BANKS AND BROKERS AND LINE WITH EACH: _____

WHAT TIME OF THE YEAR DO YOU BORROW OF YOUR BANKS? _____ THROUGH BROKERS? _____

STATE MAXIMUM AMOUNT BORROWED FROM ALL SOURCES DURING FISCAL YEAR JUST CLOSED: _____

DO YOUR BRANCHES OR ALLIED CONCERNS BORROW LOCALLY? _____ WHERE? _____

DO YOU BORROW CONTINUOUSLY IN OPEN MARKET? _____ FOR MERCHANDISE? _____

OTHERWISE? _____ AMOUNT OF YOUR NOTES PAYABLE SECURED BY COLLATERAL: _____

DESCRIBE THE COLLATERAL: _____

ACCOUNTS PAYABLE—WHAT ARE YOUR AVERAGE TERMS OF PURCHASE? _____

DO YOU DISCOUNT? _____ ANTICIPATE? _____ NAME A FEW CONCERNS FROM WHOM YOU PURCHASE IN LARGE QUANTITIES: _____

Figure 21: In addition to the description of land and buildings at the top these two pages contain spaces for a lot of additional credit information. For instance, all accounts and notes receivable due from officers, stockholders, and employees are listed, with details,

DEPOSITS OF MONEY WITH THIS CORPORATION BY OFFICERS OR OTHERS—ON TIME OR DEMAND? _____
 FROM WHOM? _____ RATE PER CENT PAID? _____

BONDED DEBT—WHEN DUE? _____ WHAT RATE? _____ ON WHAT ASSETS A LIEN? _____
 AMT. AUTHORIZED \$ _____ AMT. ISSUED \$ _____ WHO IS TRUSTEE? _____
 PROVISION FOR RETIREMENT _____

CHattel MORTGAGES—TO WHOM? _____ DATE OF MORTGAGE? _____ TERMS OF PAYMENT? _____
 ON WHAT ASSETS A LIEN? _____ DOES IT REPRESENT A PART OF PURCHASE PRICE? _____
 DOES IT REPRESENT BORROWED MONEY? _____

LEASES—ARE YOU LEASING ANY PROPERTY? _____ WHAT ARE THE TERMS OF THE LEASES? _____

OTHER CURRENT LIABILITIES—Number: _____

MISCELLANEOUS

CAPITAL—HOW PAID IN?—CASH \$ _____ OTHER PROPERTY AND HOW VALUED? _____

ARE PREFERRED STOCK DIVIDENDS CUMULATIVE? _____ DIVIDEND RATE? _____ PRESENT UNPAID ACCUMULATION \$ _____
 ORGANIZED UNDER LAWS OF WHAT STATE? _____ ARE YOUR BRANCHES INCORPORATED SEPARATELY? _____
 IN WHAT STOCK IS VOTING POWER VESTED? _____ HOW? _____

INSURANCE—ON MERCHANDISE \$ _____ CREDIT \$ _____ LIABILITY \$ _____ LIFE \$ _____
 INDORSERS—WHAT IS THE NET WORTH OF EACH INDORSER OUTSIDE OF INTEREST IN THIS BUSINESS? _____

OFFICERS AND DIRECTORS (Name in full)	NUMBER SHARES HELD	ADDRESS
	Prl. | Cons.	
PRESIDENT _____		
VICE-PRESIDENT _____		
SECRETARY _____		
TREASURER _____		

TIME OF YEAR RECEIVABLES GENERALLY MAXIMUM _____ MINIMUM _____
 TIME OF YEAR MERCHANDISE GENERALLY MAXIMUM _____ MINIMUM _____
 STATE GROSS SALES FOR THE PAST THREE YEARS—19 _____ \$ _____ 19 _____ \$ _____ 19 _____ \$ _____
 WHERE IS YOUR PRINCIPAL SALES TERRITORY? _____
 IF YOUR BOOKS HAVE BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT, GIVE NAME OF ACCOUNTANT AND
 DATE OF AUDIT _____
 ARE THERE ANY JUDGMENTS UNSATISFIED, OR SUITS PENDING AGAINST YOUR CORPORATION AND FOR WHAT
 AMOUNT? _____
 GIVE DATE YOU REGULARLY TAKE INVENTORY AND CLOSE YOUR BOOKS _____

The foregoing statements and details pertaining thereto, both printed and written, have been carefully read by the undersigned, and I hereby
 solemnly declare and certify that same is a full and correct exhibit of our financial condition.

CORPORATE NAME _____

DATE SIGNED _____ BY _____ (Other's title must be given)

NOTE: If you have any difficulty in filling in the foregoing statements and questionnaires, the Credit Department of this bank is prepared to
 extend you courteous and intelligent service; in fact, we solicit your cooperation and acquaintance with our credit methods.

as well as various data on liabilities. In addition are entries describing the bonded debt, leases, stock, insurance, and so on. Next comes the list of officers and other worth-while information. Here again the simplicity of arrangement and of the questions make the form effective.

banks find that it helps to have all their credit information classified in accordance with the different statement blanks. These come under the headings:

1. Individual
2. Individual (manufacturing or mercantile lines)
3. Corporation
4. Partnership

These statements (Figures 19, 20, 21, and 22) are reproduced complete in this chapter because they suggest ideas for classification and for minimizing credit risks. Each method of classifying customers from the lending standpoint has its desirable features according to the location, the size, the organization, and the arrangement of a bank. Institutions in rural communities must give greater attention to classifying farm risks, as indicated in the volume on loans and discounts. Some city banks find it convenient to classify loans in still another way under the headings:

1. Manufacturing
2. Wholesaling
3. Jobbing
4. Retailing

The value of this arrangement has been proved in a number of instances. For example, it enables the credit officer to check his loans easily against trade or market developments. Suppose a sudden change comes in the status of labor in the manufacturing field. The risks affected by this influence can be checked up immediately by running through the records of the manufacturing division. If financial conditions make retailing more precarious than usual, the credit officer can tell with minimum effort just how he stands on loans of this character, and how he can proceed to protect the bank's interests. This, bankers agree, is mighty worth while.

PARTNERSHIP

LOCATION OF PLANT

TO UNION COMMERCE NATIONAL BANK, CLEVELAND, OHIO

FOR THE PURPOSE OF OBTAINING CREDIT FROM TIME TO TIME WITH YOU, FOR OUR NEGOTIABLE PAPER OR OTHERWISE. WE FURNISH THE FOLLOWING AS A TRUE AND CORRECT STATEMENT OF OUR FINANCIAL CONDITION ON _____, 19____, AND HEREBY AGREE TO NOTIFY YOU IMMEDIATELY IN WRITING, OF ANY MATERIALLY UNFAVORABLE CHANGE IN OUR FINANCIAL CONDITION, OR OF ANY FACTS OR CIRCUMSTANCES WHICH MAY MATERIALLY AFFECT THE TRUTH OF THE STATEMENT TO BE CONSIDERED AS A CONTINUING STATEMENT, AND THAT OUR FINANCIAL RESPONSIBILITY HAS NOT FALLEN BELOW THE CONDITION HEREIN SET FORTH.

(In the absence of any amount, insert cipher in statement forms. Answer all questions on following page. Use the words "Yes," "No" or "None" when they will answer the questions correctly. Sign at bottom of fourth page.)

ASSETS		DOLLARS	CENTS	LIABILITIES		DOLLARS	CENTS
CASH ON HAND				NOTES PAYABLE FOR MERCHANDISE			
CASH IN BANK				NOTES PAYABLE TO BANKS			
NOTES RECEIVABLE OF CUSTOMERS— DUE WITHIN 90 DAYS				NOTES PAYABLE FOR PAPER SOLD			
NOTES RECEIVABLE OF CUSTOMERS— DUE BEYOND 90 DAYS				NOTES PAYABLE TO PARTNERS			
ACCOUNTS RECEIVABLE OF CUSTOMERS				NOTES PAYABLE TO OTHERS			
MERCHANDISE—FINISHED				ACCOUNTS PAYABLE—NOT DUE			
MERCHANDISE—IN PROCESS— UNFINISHED				ACCOUNTS PAYABLE—PART DUE			
MERCHANDISE—RAW MATERIAL				ACCOUNTS PAYABLE TO PARTNERS			
OTHER ACTIVE ASSETS—Transfer on Page 37				DEPOSITS OF MONEY WITH THIS/COMP- ANY BY PARTNERS AND OTHERS			
				OTHER CURRENT LIABILITIES— (Transfer on Page 3)			
TOTAL ACTIVE ASSETS				TOTAL CURRENT LIABILITIES			
DUE FROM CON- TROLLERS ON AL- LIED CONCERNS	FOR MERCHANDISE			MORTGAGES OR LIENS ON REAL ESTATE			
	FOR ADVANCES			CHATTEL MORTGAGES			
STOCKS, BONDS AND INVESTMENTS				ANY OTHER LIABILITIES—Transfer			
LAND							
BUILDINGS							
MACHINERY, EQUIPMENT AND FURNITURE							
WHEELS, WAGONS AND AUTOMOBILES				TOTAL LIABILITIES			
NOTES RECEIVABLE—DUE FROM PARTNERS AND EMPLOYEES				RESERVES—Transfer			
ACCOUNTS RECEIVABLE—DUE FROM PARTNERS AND EMPLOYEES							
GOOD WILL, PATENTS AND TRADEMARKS							
OTHER ASSETS—Transfer							
				NET WORTH			
TOTAL				TOTAL			

CONTINGENT LIABILITY OF ANY KIND

UPON RECEIVABLES DISCOUNTED OR PLEDGED				
UPON ACCOMMODATION PAPER OR INDORSEMENTS				
UPON NOTES EXCHANGED WITH OTHERS				
CUSTOMERS' ACCOUNTS SOLD AND ASSIGNED				
AS GUARANTOR FOR OTHERS ON NOTES, CONTRACTS, AND SO ON				
FOR BONDS OR UNFINISHED CONTRACTS				
FOR LEASES				

Figure 22: Still different from the credit forms already shown, is the one on this and following pages, illustrating a partnership statement. The fundamentals, of course, remain the same, but the items vary to cover the partnership requirements. Each page is reproduced in full.

CONDENSED PROFIT AND LOSS STATEMENT FOR FISCAL YEAR ENDING _____

EXPENSE				INCOME			
COST OF MATERIAL OR MERCHANDISE CONSUMED				NET SALES			
ACTUAL EXPENSE OF CONDUCTING BUSINESS (including Rent, Taxes, Insurance, and so on)				FROM INVESTMENTS			
SALARIES PAID TO PARTNERS				FROM DISCOUNTS ON PURCHASES			
INTEREST ON BORROWED MONEY				FROM OTHER SOURCES—Transfer			
BAD DEBTS CHARGED OFF							
DEPRECIATION CHARGED OFF							
NET PROFITS							
TOTAL				TOTAL			

RECONCILIEMENT OF NET WORTH

NET WORTH AT CLOSE OF PREVIOUS FISCAL YEAR _____

LESS CHARGES NOT APPLICABLE TO CURRENT YEAR _____

ADD NET PROFITS AS ABOVE _____

LESS—WITHDRAWALS BY PARTNERS, OTHER THAN SALARIES AS ABOVE _____

NET WORTH—(See last page) _____

DETAILS RELATIVE TO ASSETS

CASH—NAMES OF ALL BANKS WHERE ACCOUNTS ARE MAINTAINED _____

ARE ANY ACCOUNTS SUBJECT TO NOTICE BEFORE WITHDRAWAL? _____ AMOUNT \$ _____

DOES THE AMOUNT REPORTED AS CASH ON HAND CONTAIN ANYTHING OTHER THAN LEGAL MONEY? _____

NOTES RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES? _____

REPRESENTS WHAT? _____

WHAT AMOUNT REPRESENTS OPEN ACCOUNTS SETTLED BY NOTES? _____ AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT? _____ AMOUNT OVERDUE? _____ AMOUNT RENEWED OR EXTENDED? _____

ACCOUNTS RECEIVABLE OF CUSTOMERS—WHAT AMOUNT DOES NOT REPRESENT MERCHANDISE SALES? _____

REPRESENTS WHAT? _____

AMOUNT YOU PROBABLY WILL NOT BE ABLE TO COLLECT? _____ AMOUNT OVERDUE? _____

WHAT ARE YOUR AVERAGE TERMS OF SALE? _____

GIVE NAMES OF A FEW CONCERN TO WHICH YOU SELL IN LARGE QUANTITIES: _____

MERCHANDISE—LAST INVENTORY TAKEN BY WHOM? _____ WHEN? _____

VALUED AT COST, OR MARKET PRICE AT DATE OF INVENTORY OR ON WHAT BASIS—FOR FINISHED? _____

FOR UNFINISHED IN PROCESS? _____ FOR RAW MATERIAL? _____ AMOUNT PLEDGED AS SECURITY? _____

ANY RECENTLY RECEIVED AND INCLUDED IN YOUR ASSETS FOR WHICH THE INVOICES HAVE NOT YET BEEN ENTERED AS ACCOUNTS PAYABLE? _____

AMOUNT IN OUTSIDE WAREHOUSES? _____

AMOUNT HELD UNDER TRUST RECEIPT? _____ UNDER CONSIGNMENT? _____

IS STOCK FRESH AND SALABLE THROUGHOUT? _____ AVERAGE AMOUNT OF STOCK CARRIED? _____

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE LAST YEAR ON THIS ITEM? _____

STOCKS, BONDS AND INVESTMENTS—GIVE DESCRIPTION AND HOW VALUED _____

MACHINERY, EQUIPMENT AND FIXTURES—ASSESSED VALUE \$ _____

WHAT AMOUNT HAS BEEN CHARGED TO DEPRECIATION DURING THE PAST YEAR ON THIS ITEM? _____

Figure 22: The general questions included here do not vary a great deal from those in previous classifications, except that emphasis is placed on salaries and the withdrawals of partners. The physical make-up of this as well as the other forms, however, is interesting because

LAND AND BUILDINGS:— { USED IN BUSINESS \$ _____
OTHER \$ _____

Description and Location	Title in Whose Name	Assessed Value	Appraised Value	Mortgages	Insurance	Rentals Received During Last Fiscal Year
		\$	\$	\$	\$	\$

BY WHOM APPRAISED? _____ WHEN? _____

IF BOOK VALUE HAS DECREASED OR INCREASED DURING THE YEAR, ACCOUNT FOR SAME _____

HAVE YOU ANY LEASEHOLDS NOT MENTIONED IN YOUR ASSETS? _____ GIVE DETAILS _____

OTHER ACTIVE ASSETS:—Real estate _____

DUE FROM CONTROLLED OR ALLIED CONCERNS:

Name of Concern	Location	For Advances	Terms	For Merchandise	Terms
		\$		\$	

NOTES RECEIVABLE—DUE FROM PARTNERS AND EMPLOYEES

Name	Amount	Time or Demand	Date of Note	Due Date	Is It a Renewed Either in Whole or in Part?	Is It Secured?	How?
	\$						

ACCOUNTS RECEIVABLE—DUE FROM PARTNERS AND EMPLOYEES

Name	Amount	Date	Date Due	Is It Secured?	How?	Account Represents What?
	\$					

DETAILS RELATIVE TO LIABILITIES

NOTES PAYABLE—NAME YOUR BANKS AND BROKERS AND LINE WITH EACH: _____

WHAT TIME OF THE YEAR DO YOU BORROW OF YOUR BANKS? _____ THROUGH BROKERS? _____

STATE MAXIMUM AMOUNT BORROWED FROM ALL SOURCES DURING FISCAL YEAR JUST CLOSED \$ _____

DO YOUR BRANCHES OR ALLIED CONCERNS BORROW LOCALLY? _____ WHERE? _____

DO YOU BORROW CONTINUOUSLY IN OPEN MARKET? _____ FOR MERCHANDISE? _____

OTHERWISE? _____ AMOUNT OF YOUR NOTES PAYABLE SECURED BY COLLATERAL? \$ _____

DESCRIBE THE COLLATERAL _____

ACCOUNTS PAYABLE—WHAT ARE YOUR AVERAGE TERMS OF PURCHASE? _____

DO YOU DISCOUNT? _____ ANTICIPATE? _____ NAME A FEW CONCERNS FROM WHOM YOU PURCHASE IN LARGE QUANTITIES: _____

of the way some of the questions are boxed off to make the contents easy to read. Note, for instance, how columns are provided to set off some of the information conveniently. This arrangement, of course, helps the customer to list his finances easily without getting confused.

DEPOSITS OF MONEY WITH THIS COMPANY BY PARTNERS OR OTHERS—ON TIME OR DEMAND? _____
 FROM WHOM? _____
 RATE PER CENT PAID? _____
 CHATTEL MORTGAGES—TO WHOM? _____ DATE OF MORTGAGE? _____
 TERMS OF PAYMENT? _____ ON WHAT ASSETS A LIEN? _____
 DOES IT REPRESENT A PART OF PURCHASE PRICE? _____ DOES IT REPRESENT BORROWED MONEY? _____
 LEASES—ARE YOU LEASING ANY PROPERTY? _____ WHAT ARE THE TERMS OF THE LEASES? _____
 OTHER CURRENT LIABILITIES—Debtors: _____

MISCELLANEOUS

INSURANCE—ON MERCHANDISE \$ _____ CREDIT \$ _____ LIABILITY \$ _____ LIFE \$ _____
 INDORSERS—WHAT, IN YOUR OPINION, IS THE NET WORTH OF EACH INDORSER OUTSIDE OF INTEREST IN THIS BUSINESS?

Name of General Partners	Address	Amount Contributed	Outside Net Worth

Name of Special Partners	Address	Amount Contributed	Debt

CONNECTIONS OF EACH PARTNER IN OTHER BUSINESS, IF ANY _____

GIVE DATE OF ORGANIZATION OF PARTNERSHIP _____ DATE OF EXPIRATION _____
 TIME OF YEAR RECEIVABLES GENERALLY MAXIMUM _____ MINIMUM _____
 TIME OF YEAR MERCHANDISE GENERALLY MAXIMUM _____ MINIMUM _____
 STATE GROSS SALES FOR THE PAST THREE YEARS—19 _____ 19 _____ 19 _____
 WHERE IS YOUR PRINCIPAL SALES TERRITORY? _____
 IF YOUR BOOKS HAVE BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT, GIVE NAME OF ACCOUNTANT AND DATE OF AUDIT _____
 ARE THERE ANY JUDGMENTS UNSATISFIED, OR SUITS PENDING AGAINST YOUR FIRM OR ANY MEMBER THEREOF, AND FOR WHAT AMOUNT? _____
 GIVE DATE YOU REGULARLY TAKE INVENTORY AND CLOSE YOUR BOOKS _____

The foregoing statements and details pertaining thereto, both printed and written, have been carefully read by the undersigned, and I hereby solemnly declare and certify that same is a full and correct exhibit of your financial condition.

FIRM NAME _____

DATE SIGNED _____ 19 _____ BY _____ (Member of Firm)

NOTE: If you have any difficulty in filling in the foregoing statements and questionnaires, the Credit Department of this bank is prepared to extend you courteous and helpful service; in fact, we will, on request, your suggestions and explanations with any credit methods.

Figure 22: Convenient arrangement is made on this page for registering the names of the general and special partners of the concern. This immediately conveys a concrete impression of the personnel of the firm—an important factor for banks to know in extending credit.

Similarly, in many other ways a classification of this sort helps the banker to "keep his ear to the ground" regarding the safety of all risks.

Wise classifications make it easier, too, for the bank to extend the right sort of cooperation to customers. For instance, one bank which has an auxiliary record to show the date borrowers close their books as illustrated in Chapter I, found it easy one year to send out cards (Figure 23), reminding customers to make adequate provision for their income tax. These cards were inexpensive and cost no postage as one was enclosed in each monthly statement envelop.

Consider, too, what cooperation like this means to the credit department. In this instance alone, sending out the cards at just the right time awakened a number of customers to the necessity of planning ahead for this tax. The responses to the questions asked were prompt and frank and the credit department received additional helpful information on the condition of a great many customers. The influence of cooperation of this sort can hardly be overestimated. In the one bank the growth of business has been constant in the face of strong competition and much of that growth is due to the way the credit department compiles and classifies its records and keeps in touch with customers in ways like those just described.

Besides the groupings already described, all loans, of course, should be classified according to their character, whether secured or unsecured, whether farm loans or city real estate loans, and so on. Here again the plans of different banks vary considerably. However, one illustration (Figure 24) will show a convenient method for filing the information on real estate loans, particularly the facts regarding property abstracts, and will no doubt suggest ideas for making classifications of this sort more complete, to the benefit of the credit department.

FOR SPECIAL ATTENTION

When you closed your books on December 31, 1917, did you make provision by setting up a reserve account for the 1917 income tax which must be paid June 15, 1918?

If not, what amount do you estimate this tax to be, and what provision, if any, have you made for meeting the payment when due, either by purchase of Government short term notes, or setting aside funds for that use?

Figure 23: Here's an example of how one bank cooperates with its customers. The timely notice brought the bank a great deal of valuable credit information, and customers appreciated the reminder it carried.

LOAN NUMBER																							
Maker																							
Location																							
Abstract from			To			10			From			To			10								
BOOK			To			10						To			10								
PIECE			To			10						To			10								
			To			10						To			10								
Owner's Policy Number						Number																	
Loaned To																							
Address																							
Phone																							
Loaned																							
Wrote No. 1				10		No. 2				10		No. 3				10		No. 4				10	
Extension																							
Returned																							
Loan Paid																							
Remarks																							

Figure 24: This record card in use by one bank which handles many real estate loans, conveniently tabs all the important information received covering the abstracts for each piece of property involved.

This card, which has stood the test of practicality in one bank, is 5 by 8 inches in size, and provides sufficient space for a complete history of the abstracts for each loan. Reference to the record is made easy by identifying it at the top with the loan number. Then follow the various items of information: the name of the maker, the location of the property, and all the facts about the abstracts. Other items are included as shown on the form, which is filed numerically according to the loan number. A classification of this sort is especially desirable for a bank which makes a specialty of real estate loans. It helps the credit department to watch the status of the property behind each risk, and assures it that the title in each instance is clear.

THIS METHOD OF HANDLING INSURANCE RECORDS
HAS ELIMINATED GUESSWORK FOR ONE BANK

In handling real estate loans, too, it is important to have a definite check on all insurance policies covering the risks. The bank wants to know that this insurance is constantly in force. Therefore, that there may be no guessing, one credit manager keeps an insurance record in looseleaf form (Figure 25). These details are classified according to the number of each loan. Thus, when any question about insurance only comes up regarding a risk, the bank officers can quickly refer to this one record. It makes a convenient classification under the heading "insurance" of all loans carried by the bank.

Some banks also distinguish between straight promissory notes and those bearing indorsements, filing each class separately in order to keep closer track of all indorsed paper. This, of course, is merely suggestive, for each bank obviously has to make its records fit its own needs. The main point, of course, is to have the classifications practical and suited to the types of loans handled.

<i>Specification</i> <i>of payments made to the bearer of this Letter of Credit</i>			
	Paid by	Amount in letters	Amount in figures

CIRCULAR LETTER OF CREDIT.

The National Bank of the Republic

OF CHICAGO

No. _____

Gentlemen: Chicago _____ 19__

This will serve to instruct you

M. _____

in whose favor we have issued a credit of _____

and whose sight drafts to that extent you

we engage shall meet with due honor if negotiated on or before _____ day of _____ 19__

The amount of each payment must be endorsed on this letter and your negotiation of the draft will be considered a guarantee that such endorsement has been made. Each draft must bear upon its face the words "Drawn against Letter of Credit No. _____ of The National Bank of the Republic of Chicago". This letter must be attached to the draft which embodies the credit. For identification please refer to the holders signature here in our list of Correspondents which is carried separately.

We are, Gentlemen,

Yours Respectfully,

THE NATIONAL BANK OF THE REPUBLIC

Specimen

To the signers of Correspondent and other Bankers Bankers where this credit is represented

Figure 26: This letter of credit has been used with unusual success by one bank. The inside pages are headed as shown in the upper sheet, so that all accounts paid can be listed both in letters and figures and the name of the paying bank officially recorded in each instance.

While on this subject of classifying risks, it may be well to consider for a moment a somewhat different type of credit. A great many banks specialize in letters of credit and a brief mention here of how they are handled may suggest to bankers ways to widen the scope of their activities.

Protection and flexibility are most essential in handling letters of credit. By adopting a method, like that to be described, a middle-western national bank has eliminated the danger of loss or forgery, that usually accompanies old-fashioned practices. At the same time it has been able to furnish the customer with credentials that are easily negotiable.

When a letter of credit is applied for at this bank, a circular like that shown in Figure 26 is issued. The face of this circular serves to introduce the buyer of the letter and it also authorizes the payments of drafts to the holder according to the amounts specified. For identification purposes and convenience, the holder of the credit letter is given a book containing a list of the bank's correspondents (Figure 27). On the inside of the front cover is an introduction card bearing the holder's signature.

Usually, the holder of a letter of credit finds it difficult to check up the payments, especially if he is traveling in foreign countries where the money standards are different. But with this circular, he always has a definite record of just how he stands. The bank, too, insures itself against mistakes or misunderstandings by explaining definitely in the letter just what procedure the paying banks are to take to reimburse their cash. In fact, by classifying this branch of the work properly it is handled much easier.

Investigation indicates that many ideas for classifying risks are of proved value. It doesn't matter then, usually, so much what the exact plan is if it is adequate to meet the needs of the bank.

CHAPTER V

GATHERING CREDIT INFORMATION

IN order to obtain outside corroborative credit information as a precaution in checking up the results of its own investigations of applicants for credit, it is necessary for every bank to keep a credit file right up to the minute, as outlined in Chapter XIV, and to maintain close contact with the different commercial agencies and similar sources of help. Many banks also employ outside investigators for the purpose of running down inquiries. These investigators represent one of the strongest forces in the regulation of bank credits, since they are usually able to get information of a character that is very valuable in determining the risk. Then, the service of clipping bureaus often provides the credit department with material that is helpful in passing upon loan applications, especially open market offerings.

Not long ago a publishing concern applied to its bank for an increased line of credit. Reference to the statements on file indicated that the concern was in good condition and ordinarily would have been entitled to more money. The bank learned, however, that the concern really controlled six subsidiary publishing firms and they were interlocked in such a way that naturally it was difficult to find out just where the identity of one commenced and the other left off. Furthermore, all of these different establishments were located on the same floor of a big office building and while they were separate and distinct businesses

ostensibly, they were in reality controlled by the same group of men.

When the bank learned this state of affairs the commercial agencies were called on for detailed information. The general reports usually furnished were not sufficient. The agencies sent out special reporters to determine exactly the status of the company, but even their reports did not clearly indicate all the ramifications of the business. The bank then decided to put its own outside investigator on the job. Before he went out, the credit manager gave him definite instructions for digging out the facts, especially for finding out whether or not there was any shifting of earnings from one subsidiary to another. Briefly, the credit department wanted to know just which sections were a source of profit and which were causing a loss, if any.

After spending three days looking over the concern's accounts, the investigator found that one division of the business, which made considerable money, was carrying along the losses sustained by some of the others. He also noted that these losses had been growing from month to month and might ultimately undermine the strength of the prosperous division. None of this information, however, appeared on the customer's financial statement and it was not volunteered to the bank when the application was presented for the increased line. Obviously, the bank knew nothing of this serious leak in the profits until the investigator brought the facts to light and enabled the credit department to complete its analysis.

Then the credit officer sent for the chief executive of the concern and asked him for an explanation. He admitted that he had been speculating on the weaker branches of the business and had been using the money which the bank had advanced on the strength of his statement and previous representations in the hope of developing them. The bank officers explained that

RETAIN THIS FOR YOUR FILES

Chicago, Ill. _____ 19__

We give you below **OUR EXPERIENCE** with.

Name: _____ Business: _____

From whom we have _____ order for \$ _____

(Indicate whether first order)

PLEASE CONSIDER INFORMATION STRICTLY CONFIDENTIAL

Yours truly,

Approved and Adopted by
**NATIONAL ASSOCIATION
OF CREDIT MEN**

BRADNER SMITH AND COMPANY

To _____

Sold from _____ To _____		MANNER OF PAYMENT ANSWER-YES OR NO
Terms _____		Discounts
Highest recent credit \$ _____		Prompt and satisfactory
Owing now Not due	{ On open account \$ _____	Slow but considered good
	{ On notes \$ _____	Slow and unsatisfactory
Owing now Past due	{ On open account \$ _____	Account secured
	{ On notes \$ _____	Notes secured
Other information _____		Notes paid at maturity
_____		Notes renewed in full
_____		Notes renewed in part
_____		Makes unjust claims
_____		Collected by attorney

Figure 28: This form for furnishing credit information, which has been approved by the National Association of Credit Men, indicates one method of gathering information. It also suggests what questions bankers may be called upon to answer when giving facts of this sort.

they could not risk their funds on such a hazard and pointed out to him the mistake he was making. He saw the effects of his overambition and quickly readjusted his methods to conform to the requirements.

This is one of many similar instances showing how the outside investigator is able to furnish the credit department with important facts in relation to a risk which may prove dangerous unless the bank goes beyond the figures as they appear in the comparative statements. And it doesn't necessarily mean that only a large bank can afford this service. Even the small bank can learn the facts which are essential to safeguarding its interests.

IN THIS INSTANCE A THOROUGH ANALYSIS OF THE STATEMENT PREVENTED SUBSEQUENT COMPLICATIONS

Shortly after the income tax law became effective, a manufacturer of metal goods filed a statement of his financial condition and when it was turned over to the credit department for analysis, a sharp decrease in net worth was uncovered. As the various items on the comparative statement were balanced one against the other over a period of years, the latest statement showed evidences of manipulation.

The outside investigator was sent to the customer's plant with instructions to make a survey of the business for the past year. As was usually his line of action, the investigator did not attempt a detailed audit but endeavored rather to look over the stock, prove up the condition of the trade, and gather other pertinent information of a general character.

While he was at the plant, the manufacturer hastened to the bank and sought out the credit manager.

"Whey did you send an investigator to my plant?" he asked, half angrily, half like a boy whose pride has been wounded. And, without giving the other man a chance to answer, he launched forth a violent protest

against the bank's action. "I've been a good customer of this bank and I'll not be watched like a criminal," he said, emphasizing his words by pounding on the top of the mahogany desk.

In the midst of this tirade the investigator walked in and reported there was nothing to indicate a reduction in the concern's net worth and that there must be some mistake in the last statement. Calmed by this unexpected interruption the manufacturer changed his attitude and confessed that he had purposely made an artful error in the statement.

"That was a copy of the statement I submitted to the government," he explained, "and I left it the same for you so if it were checked up at any time it would show no discrepancies."

The head of the credit department in this bank relates that investigators have found other instances of business men who have been tempted to alter their statements to avoid excess taxes. It is just this sort of error that the outside investigator often uncovers.

Next to the files and the bank's outside investigators, the commercial credit agencies offer banks effective assistance in developing credit information. The detailed reports of local agencies, supplemented by the general data from the national agencies or the exclusive trade agencies, usually form an avenue of approach which makes it comparatively easy to find out the actual condition of the borrower.

A middle-western national bank endeavors, through a local agency, to keep a line on all court and real estate transactions relating to its customers. For instance, when the credit department found that the checking balance of a manufacturing concern was decreasing by leaps and bounds, it immediately wanted to know why. A preliminary inquiry showed that the raw material market of this manufacturer was not in a condition at this particular time to

invite heavy buying. Yet he had drawn his full line of credit amounting to \$60,000 and his account indicated that he might be in need of more funds in a short time. What was he doing with the money? The bank's credit man asked the local agency for a report. The answer to the puzzle was quickly forthcoming. The agency replied that the manufacturer was dabbling heavily in a real estate subdivision and that he was the defendant in two judgment cases arising from disagreements over purchases of property which he had made. A report like this necessitated quick action. The manufacturer was called in and confronted with the facts. He, of course, had no defense. He admitted that he had been diverting his attention and his money from his business in order to speculate in real estate. Getting the outside information immediately on discovering weak points in this account, the bank was able to take the proper steps to protect its interests.

Thus, a careful check of customers' credits through the agencies may often be of great value to a bank, for it may show that a borrower is devoting too much attention and spending too much money on a side line, or that he is manipulating his finances in some other way, to the detriment of his line of credit, which is granted solely to supply temporary needs in a sound and growing business. Sometimes careful observation by the bank's officers will detect practices of this character, but usually the safest way to keep a definite check on this tendency is to secure agency reports, as in the instance just described.

It is essential for a bank to have outside service of this sort when buying commercial paper on the open market. In its own community the bank may have very little difficulty in checking up the paper offerings of local concerns, but in determining the worth of paper placed on the market by outside concerns, it

Paper Trades Bureau Inquiry Ticket THE CREDIT CLEARING HOUSE Members in more than three hundred cities																											
Please furnish us in confidence, with the experience of members, as to the commercial standing of																											
DATE _____																											
NAME _____																											
ADDRESS _____																											
Also trading as _____																											
Sold _____ to _____ 19 _____ LENGTH OF TIME Terms _____ Highest credit _____ Manner of Payment Discounts _____ Prompt _____ Slow _____ Pays notes _____ Pays drafts when made _____ Collected by attorney _____ Uncollected old account _____ SEE REMARKS Secured _____ Refused _____ Makes unjust claims _____ Remarks: GIVE NAMES OF FIRMS KNOWN TO BE SELLING	Order Unfilled \$ _____ Amount Owing { NOTES \$ _____ { ACCOUNTS \$ _____ Past Due \$ _____ [NOTES AND ACCOUNTS] <table style="width: 100%; font-size: x-small;"> <tr> <th style="text-align: center;">Notes DUE AS FOLLOWS</th> <th style="text-align: center;">Open Account BOUGHT AS FOLLOWS</th> </tr> <tr><td>Jan. \$ _____</td><td>Jan. \$ _____</td></tr> <tr><td>Feb. \$ _____</td><td>Feb. \$ _____</td></tr> <tr><td>Mar. \$ _____</td><td>Mar. \$ _____</td></tr> <tr><td>April \$ _____</td><td>April \$ _____</td></tr> <tr><td>May \$ _____</td><td>May \$ _____</td></tr> <tr><td>June \$ _____</td><td>June \$ _____</td></tr> <tr><td>July \$ _____</td><td>July \$ _____</td></tr> <tr><td>Aug. \$ _____</td><td>Aug. \$ _____</td></tr> <tr><td>Sept. \$ _____</td><td>Sept. \$ _____</td></tr> <tr><td>Oct. \$ _____</td><td>Oct. \$ _____</td></tr> <tr><td>Nov. \$ _____</td><td>Nov. \$ _____</td></tr> <tr><td>Dec. \$ _____</td><td>Dec. \$ _____</td></tr> </table> CHICAGO DIST. NO. 153-Y	Notes DUE AS FOLLOWS	Open Account BOUGHT AS FOLLOWS	Jan. \$ _____	Jan. \$ _____	Feb. \$ _____	Feb. \$ _____	Mar. \$ _____	Mar. \$ _____	April \$ _____	April \$ _____	May \$ _____	May \$ _____	June \$ _____	June \$ _____	July \$ _____	July \$ _____	Aug. \$ _____	Aug. \$ _____	Sept. \$ _____	Sept. \$ _____	Oct. \$ _____	Oct. \$ _____	Nov. \$ _____	Nov. \$ _____	Dec. \$ _____	Dec. \$ _____
Notes DUE AS FOLLOWS	Open Account BOUGHT AS FOLLOWS																										
Jan. \$ _____	Jan. \$ _____																										
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Sept. \$ _____	Sept. \$ _____																										
Oct. \$ _____	Oct. \$ _____																										
Nov. \$ _____	Nov. \$ _____																										
Dec. \$ _____	Dec. \$ _____																										

Figure 29: This well-arranged form for obtaining credit facts about business concerns from members of the credit clearing house, differs somewhat from the ticket shown in Figure 28. It suggests to bankers some of the information credit men consider essential to know.

will find the agency's examination important and valuable—in fact, often indispensable.

A middle-western bank, like many other banks, receives reports daily on the condition of business concerns. These reports are summarized in this way:

Simmons Manufacturing Company, Canajoharie, New York, chairs and dressers. Massachusetts corporation, paid in capital \$250,000; surplus and individual profit \$115,000. Statement June 30 shows quick \$205,000; debt \$35,000. Fair progress. Note offered straight and considered good investment, though not considered prime in view of lukewarm checkings received.

A statement relating briefly to another company will illustrate the value of this credit exchange:

This concern enjoys the confidence of the trade and is paying its bills promptly, although recent statement shows heavy debt and does not indicate much progress.

As soon as the bank receives these daily reports, they go to the credit desk where the credit manager makes a digest of them for practical reference. If the bank is buying the paper of any of the houses on which reports are received, from the information thus gained it can tell at a glance in comparison with its own records exactly how the concern stands.

Sometimes additional information is secured for the files by sending out form letters. To do this wisely, however, requires extraordinary tact. Unless the bank prepares the letter most carefully, it is likely to give to the recipient the impression that the bank is doubtful about the subject of the inquiry as a risk when in reality it is seeking only to keep its files up to date and properly checked. To guard against such a misunderstanding, a national bank always inserts, in every letter sent out, the following sentence:

“This inquiry is made in connection with the revision of our files and we wish to assure you that it does not indicate anything unusual or unfavorable.”

A tactful precaution like this offers the bank a defense should a customer find out that his credit is being investigated in the trade and come in to protest against it.

When the head of an engraving house learned that his bank was sending out letters to find out about his credit, he immediately called to find out the reason. He protested that the inquiry would hurt his standing among the supply houses.

THIS INCIDENT SHOWS HOW A BANKER HANDLED AN EMBARRASSING SITUATION AND MADE A FRIEND

"Before going into this, I want to ask you," said the credit officer, "whether you have anything at all you wish to conceal from us regarding your financial condition?"

"I should say not," replied the customer, still somewhat indignant.

"Then, wouldn't you feel justly proud, if all of your suppliers, who have been cooperating with us in proving up our files for every customer, wrote us highly complimentary reports of your business?"

The visitor assented.

The banker rang and had the customer's folder brought in. From it he took four letters.

"Look at these," he said, as he handed the suppliers' letters over to his business guest.

The customer read each one eagerly, gave them back almost tenderly, and smiled. Every one of the reports placed him in the preferred class of desirable credit risks and complimented his business ability. He, of course, was pleased, and quickly saw that the bank's method of check-up could do a good credit risk no possible harm.

So tactfully had the banker handled the whole situation that the customer voluntarily offered to furnish the names of other concerns which would

be helpful in supplying the bank with the credit information. Some bankers, however, do not favor the use of form letters for this purpose. The reasons are taken up in Chapter XIII.

Still another way in which the bank gathers its credit information is to watch the indorsements on the back of the checks of its customers.

When a borrower's balance shows a decrease, it is easy to look over his checks and find out where he is spending his money. Sometimes, of course, the customer may so draw his checks that their real purpose is covered up, as, for example, drawing a large personal check. On the whole, however, the indorsements may be relied upon to show how the customer is paying his bills and this, if nothing else, is a good barometer of the condition of his business.

Bankers and business men sometimes try to secure credit information over the telephone. As a rule, this is bad practice from every standpoint, especially if you are not positive who is at the other end of the wire. To be guided solely by the sound of a voice is taking a chance that might lead to the violation of a business confidence. Usually it is considered good policy to have all credit information in writing.

It has not been the purpose of this chapter to cover all phases of gathering credit information. There are some which are dependent on reciprocal exchange methods, to be described in Chapter XIII. However, we have shown a number of the ways in which bankers widen the scope of their credit activities to make lending to borrowers more safe and profitable. And this, of course, is the chief reason for perfecting the machinery for gathering credit information.

PART II

FINDING THE RIGHT CREDIT BASIS

CHAPTER VI

HOW TO ANALYZE STATEMENTS

A MERCHANT in the Northwest lines up his assets and liabilities in the following way for the information of his banker. Under the heading of quick assets are included:

- Merchandise at cost, plus freight
- Customers' current accounts
- Notes receivable
- Cash on hand and in banks
- Total

Under a subheading of his "assets" are:

- Store buildings, garage (less depreciation)
- Real estate and buildings (less depreciation)
- Store fixtures (less depreciation)
- Delivery equipment (less depreciation)
- Total

The "liabilities" include these items:

- Accounts payable
- Notes payable
- Employees' deposits
- Total

The merchant also shows at the bottom of the sheet his capital and surplus.

This summary gives the bank the necessary information regarding the dealer's business affairs—plus the knowledge, gained by comparing it with previous statements, that the stock of merchandise is fresh and moving rapidly, that the accounts are in good, healthy

condition, and that the business is making a satisfactory net profit on the investment.

In much the same way, another firm furnishes its bank with a statement based on two-year figures which are made up in this manner:

Discount current	General expenses
Charges to income by departments on items not included in general overhead expenses	Insurance
Advertising	Taxes
Subscriptions and charities	Light
Collections	Heat
Delivery	Supplies
Drayage	Rent
Express	Salaries
Freight	Sales by departments
	Profits and losses

Thus, the bank sees at a glance the condition of the business, its profits and its growth. By lining up the assets and liabilities in this way, the bank gains a quick and definite impression of the firm's affairs.

It matters not especially what sort of a statement is used so long as it reveals in a simple and direct way the essential qualities of the business. In all of the important particulars the form of statements used by various banks is almost identical. These forms reveal, as we will show, some of the important points which the banker must know before granting a loan.

The usual form of financial statement consists of the gross items of assets and liabilities, but the statement is almost always inadequate and misinforming unless it is backed up by a thorough knowledge of the personal risk as described in Chapter VII.

Assets are divided into two groups: Quick and slow. Quick assets form the basis of security behind all loans made by commercial banks. With the retail and the wholesale merchant, for example, this group consists of accounts receivable and merchandise, providing, of course, that both are in a healthy condition.

In any of the industrial lines, bills receivable, raw materials, and marketable merchandise usually make up the quick assets. Where quick assets are kept in a live, healthy condition, so that they can be regarded as security for credit extended, and other conditions in the borrower's business are good, the banker's problem is simple. Even in times of depression, good "quick" commercial assets can normally be converted into cash in a reasonably short time.

QUICK ASSETS VERSUS SLOW ASSETS—THEIR RELATIVE
IMPORTANCE IN ANALYZING STATEMENTS

Buildings, real estate, machinery, and permanent fixtures are slow assets, and should be considered only as a background for quick assets. It is fundamentally wrong for any bank, which is required by law to keep its funds liquid, to lend on slow security of this character. In the first place, its actual value under the hammer of a forced sale is problematical, even while the relative value of fixed assets to the borrower may be high. Secondly, the bank's deposits are largely payable on demand and they must be safeguarded against contingencies.

Slow assets, which are usually referred to as the investment item, represent one of the most important parts of the statement, since they provide the necessary machinery for production. A statement which reveals a normal and prosperous condition should show a certain amount of capital, or net worth, as it is commonly known, left over for investment in the materials to be sold or manufactured by the borrower. Thus it is essential to find out the relation of the amount for investment to the fixed assets of the plant. In fact, these fixed assets act as a decisive factor in determining the real strength of a concern, and it is in the relation which they bear to the investment that this is disclosed. Because the fixed assets or the invest-

FUNDAMENTAL OPERATING STATEMENT MATERIAL ACCOUNT

Charges.

Inventory (at beginning of month).
Purchases (during month).

Credits.

Materials drawn from stores.
(Charged to production direct or indirect.)

Balance.

Value of inventory
This account can be subdivided in as many accounts as necessary,
according to materials used and should be a matter of current
record.

PAYROLL ACCOUNT

Charges.

Total monthly payroll (direct and indirect).

Credits.

Direct labor (charged to manufacturing).
Indirect labor (charged to burden or operating expense).

Balance.

Accrued labor.

INDIRECT BURDEN EXPENSE ACCOUNT

Charges.

General indirect salaries and wages.
General indirect material.
General indirect burden expense
Fixed indirect salaries and wages.
Fixed indirect material.
Fixed indirect burden expense.
Departmental indirect salaries and wages.
Departmental indirect material
Departmental indirect burden expense.

Credits.

Total burden expense on monthly direct labor (completed product
or in process of manufacture).

MANUFACTURING OR OPERATING ACCOUNT

Charges.

Direct labor.
Direct materials.
Indirect burden expense general.
Indirect burden expense fixed.
Indirect burden expense departmental.

Figure 30: One bank obtains valuable information for its credit department by calling for balance sheets from its customers. These balance sheets are made up similar to the outline given on this and the following page. Note how the items are headed and subdivided to

Credits.

Finished product at cost.

Balance.

Goods in process of manufacturing.

FINISHED PRODUCT ACCOUNT

Charges.

Finished production at cost.

Credits.

Total sales at cost.

Balance.

Value of finished product on hand

SELLING EXPENSE ACCOUNT

Charges.

All expense incidental to marketing the product.

Credits.

By charging the amount against sales.

SALES ACCOUNT

Charges.

Sales at cost billed out

(credited to finished product account).

Credits.

Sales at selling price.

Balance.

Gross profits.

Charges.

Selling expense.

Balance.

Net profits.

PROFIT AND LOSS ACCOUNT

Charges.

Such losses as have occurred.

Credits.

Net profits from sales.

Balance.

To surplus account.

give specific information on figures not shown in detail on the customary financial statement. All financial details of interest to the bank thus are readily available down to the totals for the profit and loss account. Inside facts like these help materially in sizing up a borrower's credit.

ment item do not represent an actual borrowing value does not mean that they should not receive thorough consideration in weighing the value of the statement. Often they represent the stability of the borrower.

The future prospects of an applicant's business and the effect general conditions have upon its economical operation also are subjects of inquiry by the bank. These points are all important, and the amount loaned depends upon the actual facts obtained regarding each one. To enable the bank's officers to have these facts, special investigators for the institution make a complete report after they have gone thoroughly into the condition of the borrower business. The work of these investigators is described in Chapter V.

In almost every bank it is customary now to call upon customers for a detailed balance sheet, including a profit and loss account, like that shown in Figure 30. This information, together with the data kept in the credit files and that gathered by observation, furnishes the bank with the necessary facts regarding the condition of the borrower's business affairs, his responsibilities, and his possible needs.

In passing on the statement, many bankers find it advisable to check carefully the figures that are used in computing the value of various new materials, the goods in process, the finished goods, the land, the building, the machinery, and so on. One banker, for example, discovered on a customer's statement an item of \$50,000 covering the finished goods account. Something about the item aroused the banker's curiosity and he decided to investigate. He found that this item should never have appeared, as it was previously included in the inventory. An inspection of the goods in the stock room showed, in the first place, that the figures were based on a rough estimate instead of on an accurate appraisal and, in the second place, that the merchandise was practically un-

salable, because it was made two years before for a customer who was no longer on the books. Thus, a purely fictitious value running into large figures was unearthed by the banker.

Let us examine the balance sheet more closely. Take, for example, the item of raw materials. In this case a current inventory is almost always essential. Unless the business of the borrower is equipped with accurate methods for cost finding, the items "goods in process" and "finished goods on hand" are usually difficult to obtain. These two items, however, involve the used materials as well as the indirect or burden expense. Thus, if they are not properly distributed to the goods, then the balance sheet is not correct.

It is desirable, therefore, especially where customers require a large amount of money, for the banker to request a fundamental operating statement like that shown in Figure 30. By using a statement of this sort, an eastern banker obtains absolutely reliable data. One of its main advantages is that it makes unnecessary frequent physical inventories because the regular checking of the current stock records helps to reduce errors to a minimum. It also provides the banker with a simple method of knowing the manufacturing or operating account, the finished product account, the selling expense and the sales account, and finally the profit and loss. Thus, it is simple to draw off a subsidiary statement that will show the gross profits under a trading account and the net profits under a turnover account. The necessary figures to fill out the account may be taken from the operating balances which appear monthly. Armed with this specific information, operating expenses may be reduced and losses stopped. The security back of the loan is therefore strengthened.

The operating statement, as already pointed out, furnishes the credit department with a direct line on

the borrower's condition. True, it is not as simple as the usual form of statement which is printed on a single sheet to bring out in a general way a great deal of the information that is required from borrowers. The condition of the assets and liabilities, briefly tabulated, is followed by a concise statement of the profit and loss accounts. Then, on the reverse side of the statement, space is provided for general information. Here it is worth noting that the bank inquires if the books of the borrower are audited by an outside accountant and the date of such an audit, if any. This is an increasingly important question among bank credit men, which is more fully treated in Chapter XI.

As simple as this statement appears to be, the bank finds that borrowers are often unable to fill it out satisfactorily. Some of the applicants for credit frankly confess the weakness of their accounting to supply the required data; others sometimes take a chance and attempt to set up figures that do not bear up under the acid test of the credit manager.

ONE BANK HAS FOUND THIS PLAN EFFECTIVE FOR LOCATING
DISCREPANCIES IN FINANCIAL STATEMENTS

When any inconsistencies or defects appear in the statement, the applicant is called to the bank and a form like that shown in Figure 31 is handed to him with the request that complete information be furnished. Nine times out of ten, the bank has found that this detailed statement cannot be satisfactorily answered, and then the bank investigators and auditors are put to work on the books of the borrower to run down the defects and the discrepancies. It is true that a borrower may unwittingly falsify a statement because of his optimism. He may see possibilities larger than they really are, and again he may manipulate figures so as to have his business appear prosperous when, as a matter of fact, it is not.

Name _____

Statement of Operations for _____ Months Ending _____

GROSS SALES	-	-	-	-	-	-	\$ _____
DEDUCTIONS (Returned Goods, Out-Freight)	-	-	-	-	-	-	_____
NET SALES	-	-	-	-	-	-	\$ _____
COST OF SALES							
Materials or Merchandise	-	-	-	-	-	-	\$ _____
Productive Labor	-	-	-	-	-	-	_____
Overhead Expense	-	-	-	-	-	-	_____
Total Cost of Sales	-	-	-	-	-	-	\$ _____
GROSS PROFIT ON SALES	-	-	-	-	-	-	\$ _____

SELLING, DISTRIBUTING AND GENERAL

SELLING AND DISTRIBUTING

Salaries and Commission	\$ _____
Advertising	_____
Traveling	_____
Miscellaneous	_____
Total	\$ _____

GENERAL

Salaries	-	-	-	-	-	\$ _____
Office Expense	-	-	-	-	-	_____
Bad Accounts Charged Off	-	-	-	-	-	_____
Miscellaneous	-	-	-	-	-	_____
Total	-	-	-	-	-	\$ _____
Total Selling, Distributing and General Expense	-	-	-	-	-	\$ _____

NET PROFIT ON SALES	-	-	-	-	-	\$ _____
MISCELLANEOUS EARNINGS	-	-	-	-	-	\$ _____
PROFIT FOR _____ MONTHS	-	-	-	-	-	\$ _____
DIVIDENDS PAID	-	-	-	-	-	\$ _____
ADDITION TO CAPITAL OR SURPLUS	-	-	-	-	-	\$ _____

ANALYSIS OF OVERHEAD EXPENSE

Non-Productive Labor	-	-	-	\$ _____
Supplies	-	-	-	_____
Depreciation—Buildings _____%	-	-	-	_____
Depreciation—Machinery _____%	-	-	-	_____
Insurance	-	-	-	_____
Taxes	-	-	-	_____
Miscellaneous	-	-	-	_____
Total Overhead Expense	-	-	-	\$ _____

Figure 31: To customers who do not offer a complete statement, one bank sends this auxiliary blank to fill in. Many times, because of inadequate accounting methods a firm is unable to fill this out fully, thus giving the banker an opportunity to recommend improvements.

The chart (Insert V) used by the credit department of a middle-western bank to analyze the statements of business men, illustrates the actual value of the statement in its relation to the borrower's business. Besides the analysis indicated on this chart, the credit department of this bank emphasizes the importance of sizing up an applicant according to what is termed the three C's of credit, as follows:

CHARACTER

Reliability.—Business and social honor. Squaring himself with the world and keeping himself so.

The Man.—Personal deportment. Leading a clean, temperate life. Character of associates.

Moral Risk.—Reputation. Built up by long years of honest dealing.

CAPACITY

Capability.—Age, health, education. Is he mentally and physically capable of conducting his business successfully?

The Methods.—Business experience? Is he experienced or is he a novice? Has he demonstrated his ability to manage a business? Does he manage this one well?

Business Risk.—Personal effort. Has he built it up himself or did he inherit it?

CAPITAL

Responsibility.—That which can be taken under an execution. Does it consist of property and other assets of a tangible character convertible into money without great cost and undue delay?

The Means.—Resources personally acquired or inherited? Is the capital borrowed or inherited, and if so, are there any "strings" to it?

Property Risk.—Net wealth. Is the capital ample? Will the lack of capital make overborrowing necessary?

After carefully considering these three elements, the prudent bank credit man should then ask himself the following questions and see that they are accurately determined:

Are the net profits commensurate with the volume of the borrower's business and the capital employed?

Has adequate provision been made for the depreciation of fixed assets, plant, machinery, and so on?

Has adequate provision been made for losses on bad accounts?

Has adequate provision been made for sinking funds for the retirement of the bonded debt?

Have dividends been paid or withdrawals made, and if so have these been made out of the current year's profits or from previous surplus capital?

How do the sales and profits for the period covered by present statement compare with these for corresponding periods in the past? Do they show a loss or gain?

Is he accumulating a surplus to provide additional working capital to care for increasing business or are profits disbursed leaving him dependent on borrowed money for working capital?

The analysis of the statement, to be of any value, consists in determining, along lines to be shown, whether the figures indicate that the borrower, whether an individual or a corporation, has enough assets to fully liquidate his liabilities. It is essential, therefore, for the bank to know, for one thing, the ratio of quick assets to current liabilities. It has become a practice among credit men to demand that the current assets amount to 200% of the current liabilities. This is commonly known as the 2 for 1 rule.

Let us turn now to the actual analysis of a statement. Two rules are pretty well established:

First: Quick assets only, as already indicated, form the basis for loans.

Second: Fixed assets are only considered as giving a more or less definite support to quick assets.

There is also another rule, based on the character of the business, which is observed by many banks. This rule provides briefly that the debt limit of the borrower has been exceeded when his liabilities are more than 50% of his quick assets. On this basis there are three facts that the well-managed credit department should establish as accurately as possible:

1. Excess quick assets or working capital
2. Proportion of quick assets to current liabilities
3. Net worth

These are determined by a most careful analysis of all the figures in comparison with those given on previous statements.

Taking up the analysis of the average statement, the prudent bank credit officer interprets the items somewhat in this way:

Cash on Hand. A large sum usually indicates loose business. To be liquid, it should be actual cash, not memoranda or "cash items."

Cash in Bank to be quick must be free of any liens or offsets and withdrawable on demand. When this amount is in proper ratio to outstanding obligations, including services performed by the banker, the statement to this extent is strong, and many banks feel that where it is good policy for customers to establish close relations with the bank on a reciprocal basis, the customer's balance should be, say, not less than 20% of the loans extended, together with an additional amount to cover transit and exchange cost of items deposited. Inasmuch as the cost of an account should be part of the data of every bank credit department, as set forth in the volume on accounting and costs, it is interesting to compute the expense of an account.

Suppose, for instance, that the average daily balance of a customer for a month is \$12,000. Against this the bank must carry a reserve in cash; a reserve in the central reserve cities; a reserve in the federal bank, if a member of the system; and reserves in excess of legal requirements as well as secondary reserves in the form of balances with banks in other cities which are not legal reserves, to compensate those banks for clearing all of its items in their respective territories. Even the largest banks with their complete equipment

To the MISSISSIPPI VALLEY TRUST COMPANY, SAINT LOUIS, MISSOURI

For the purpose of procuring credit from time to time from you for my negotiable paper or otherwise, I furnish you with the following statement, which fully and truly sets forth my financial condition on the _____ day of _____ 19____, which statement you can consider as continuing to be full and accurate unless written notice of change is given you. I agree to notify you promptly of any change that materially reduces my financial responsibility or jeopardizes in any way the value of the security back of my obligation to you.

ASSETS I OWN			DEBTS I OWE		
CASH IN BANK \$			NOTES PAYABLE	\$	
CASH ON HAND			ACCOUNTS PAYABLE		
NOTES SECURED BY INDORSEMENT AND CONSIDERED GOOD			CHattel MORTGAGES		
NOTES SECURED BY REAL ESTATE			MORTGAGES AND LIENS ON REAL ESTATE		
STOCKS AND BONDS PER SCHEDULE			OTHER LIABILITIES		
REAL ESTATE IN MY NAME PER SCHEDULE					
LIVE STOCK					
MACHINERY					
OTHER ASSETS					
			TOTAL ASSETS \$		
			TOTAL DEBTS		
			NET WORTH		
TOTAL ASSETS			TOTAL DEBTS		

Figure 32: For simplicity of make-up this statement form, used satisfactorily by a middle-western bank, is striking. It has served especially well for individual borrowers whose financial and banking experience has not been extensive. The second and third pages follow.

INSURANCE CARRIED ON MY LIFE :	PAYABLE TO
LIVE STOCK CONSISTS OF	
FIRE INSURANCE AND TORNADO INSURANCE	
NOTES OUTSTANDING, PAYABLE TO	
NOTES INDORSED, FOR WHOM	
CHATTEL MORTGAGES, IN FAVOR OF	
REMARKS:	
(SIGNED)	
ADDRESS	
DATE	

regarding the transaction; similarly, the securities are lined up for the benefit of the credit officer. The last page carries out the same brevity. The banker thus can size up a borrower's statement in the quickest possible time and determine his financial condition accurately.

and facilities cannot possibly send every out-of-town check direct to the bank or place of payment; but the larger the bank the more nearly items can be sent direct. Relatively, therefore, the small bank's burden may sometimes be greater. Going back to the instance cited, these reserves make up a total of over \$3,500. That, presumably, will leave a balance of \$8,500 to lend to the customer. But this figure is far from accurate, because exchange and collection charges must also be deducted.

JUST WHAT PROPORTION OF A FIRM'S ASSETS SHOULD
CONSTITUTE "CASH IN BANK"

Notes Receivable. These are not quick if they represent past-due notes, stockholders' notes, "straw men" for stock supposed to be fully issued; obligations of officers and directors having their all invested in the corporation; "kited" notes, or notes taken for past due and perhaps worthless accounts. If it is the custom of the particular business under consideration to accept notes from first-class debtors, notes receivable are better assets than open accounts; but, in most staple lines, it has become the method of buyers to purchase on open account and anticipate or discount bills. However, because of the Federal Reserve Board's preference for double-name paper drawn on a purchaser against an actual sale of goods, which is prima facie evidence of its self-liquidating nature and its character, trade acceptances are gradually taking the place of these open accounts. Chapter XVIII takes up the subject of the trade acceptance as a credit risk.

Accounts Receivable. This is supposed to be the sum of all bills for merchandise sold to customers, which are not yet due. This item, however, has in some instances been found to include such slow assets as disputed freight claims; overdrafts of officers, directors, or salesmen; bills long overdue; or, in fact,

items not "receivable" at all, but merely "advances" or "deferred" items.

Accounts Receivable pledged for loans. If an asset at all, are considered slow and indicate that the limit of credit for single-name loans has been exceeded. This practice, of course, subjects to a lien the best liquid assets on which the banker has based his credit. Good notes and accounts receivable, when properly compared with net sales, on a basis of definite trade terms, are a fair barometer of the borrower's credits and collections. If the terms are 60 days, accounts still outstanding of over one fifth of the net sales may be cause to question the borrower's methods.

IF THE INVENTORY ITEM LOOKS SUSPICIOUS, HERE ARE
SOME WAYS YOU CAN TEST ITS REAL WORTH

Merchandise. The inventory is the acid test of honesty. In analyzing this item it is important to see that the inventory has not been marked up to an inflated figure. Probably nothing in a statement makes a banker suspicious more quickly than figures which show that profits not realized on unsold goods have been taken in a current period. Finished goods should be valued at cost or market price, whichever is the lower, and not at sales prices. "Cost" may include all expenses incurred in manufacturing; but in no event should conservative methods admit of the addition of any part of administration or selling expenses to the cost of goods. This would throw the financial statement out of balance.

It is conservative procedure to inventory unfinished goods as raw material and at the present market cost. Supplies, stores, and so on, while consumed in the general activities of manufacturing, do not themselves form an integral part of the products manufactured and they are, therefore, considered slow assets and not a part of the merchandise.

The inventory is one of the two big items for the banker to watch in nearly every statement, and is probably second only to the other—the item of accounts and bills receivable. Both take time to liquidate, in contrast to cash on hand and in bank, which is fully liquid. While uncut raw material of a standard variety could ordinarily be thrown directly on the market, experience has shown that it almost always is needed in the finishing process to prepare the unfinished goods for satisfactory liquidation. This sometimes causes the merchandise inventory to appear a little slow when compared to cash and receivables, and is a point for the banker to keep in mind in sizing up a statement.

Stocks, Bonds, and Investments. When the banker does not request detailed data on this item to determine its actual worth and whether it is quick or slow, his proper method of analysis is to treat it all as slow. If made up of investments in subsidiaries where it must remain for an indefinite time to enable those concerns to carry on their business, it is unquestionably permanent and slow.

The banker who profits from experience will require from a company which is extensively financing branches and subsidiaries a consolidated balance-sheet made up by a competent certified public accountant. In this way he can learn broadly the concern's standing financially and with the outside public (Chapter XI). This item should not include unissued stocks and bonds of the corporation itself, which are not an asset; and even issued stocks or bonds, temporarily repurchased, are not quick if the concern is a close corporation. If a corporation is forced into liquidation, and its securities are even listed on an active stock exchange, such securities will have only a speculative market and a residual value, which can only be indefinitely determined when the concern is entirely liquidated.

Permanent or Slow Assets. The only consideration which a banker gives to the several items under this head is generally comparative in character. You can search here for symptoms, should other items of the statement present a sickly appearance, or should the profit and loss figures look too healthy, all other conditions being equal. If a concern's capital is nearly all invested in permanent assets, it is poor business, usually, for the banker to furnish more than a nominal amount of working capital, at most. No matter how much money has been actually invested in permanent assets, its liquidation always means waiting for a prospect, then long negotiations, and finally a sale at a sacrifice. Sometimes additional money has to be advanced to save the loans already made. Then it is that the banker enters into the manufacturing or real estate business for an indeterminate period—a necessity no banker wishes to incur. In slow assets, too, may also be found the all too common subterfuge, "marking up" to conceal a depletion of surplus or capital, which is sometimes called "window dressing."

OTHER POINTS YOU CAN USE IN JUDGING A CUSTOMER'S
BUSINESS ABILITY FROM HIS STATEMENT

Notes Payable for Merchandise. If a large amount has been borrowed from banks on the implied contract that it is for the purpose of discounting bills, which in some lines yields from 10% to 25% a year, this item, if large, may indicate a lack of cash capital, unless the business is of the sort which usually gives notes for merchandise purchases. In that event, however, the bank borrowings should be small. This item should show only a normal percentage to purchases.

Notes Payable to Own Banks. It is frequently difficult to draw a clear distinction between current loans and those made for capital purposes. Loans made against accounts and bills receivable and paid

INDIVIDUAL AND FIRM

TO WAYNE COUNTY AND HOME SAVINGS BANK, DETROIT, MICHIGAN

The undersigned, for the purpose of procuring credit from time to time from you for the negotiable paper of the undersigned or otherwise, furnishes you with the following statement and information which fully and truly set forth the financial condition of the undersigned on the _____ day of _____ 19____, which you may consider as continuing to be full and accurate unless notice of change is given you. The undersigned agrees to notify you promptly of any change that materially reduces his pecuniary responsibility.

In consideration of the granting of such credit, the undersigned agrees that if he at any time fails or becomes insolvent, or commits an act of bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit account of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

Signed _____

ASSETS				LIABILITIES			
Cash on Hand and in Bank _____				Bills Payable for Merchandise _____			
Bills Receivable, all good, owing by Customers _____				Bills Payable negotiated to own Bank _____			
Accts Receivable, all good, owing by Customers _____				Bills Payable otherwise disposed of _____			
Merchandise, finished (How valued _____)				Open Accounts not due _____			
Merchandise, unfinished (How valued _____)				Deposits of Money with us _____			
Machinery and Fixtures _____				Mortgages or Liens on Real Estate _____			
Horses, Wagons, Automobiles belonging to firm _____				Liens or Encumbrances on Merchandise or other _____			
Stocks and Bonds—Market Value _____				Assets, aside from Real Estate Mortgages _____			
Interest, Insurance, and so on _____				Other indebtedness _____			
Real Estate—Market Value _____				and of what composed _____			
Other Assets and of what composed _____				Total Liabilities _____			
				Net Worth _____			
Total _____				Total _____			

Contingent Liability	Indorsed Bills Receivable Outstanding \$ _____	
	Upon Accommodation Indorsements, \$ _____	Upon Exchange Paper, \$ _____
	For Guarantees, \$ _____	For Bonds, \$ _____

Names in full of general partners and the respective worth of each outside of the business.	{ _____ _____ _____
Names in full of special partners with amounts contributed by each and until when.	

(Over)

Figure 33: Smaller banks sometimes do not find it necessary to have customers make out as detailed a statement as those shown previously. For such banks the above combination of individual and firm statements may contain ideas of interest. It includes the agreement, the conveni-

MEMORANDA

Give basis of this statement; if on actual inventory
state by whom taken and date

Regular time for taking inventory

What amount of Accounts and Bills Receivable in this statement, not charged off, is past due,
extended or renewed, \$

Amount charged off for bad debts last fiscal year, \$

Amount recovered during same period, \$

Sales preceding year, \$

Amount withdrawn from business preceding year, \$

Insurance carried on merchandise at date of statement, \$ On real estate, \$

REAL ESTATE:

Location (give legal description and street name and number)

Nature

In whose name is title held?

What portion has been acquired through bad debts?

Do you ever exchange notes, drafts or checks with any person, firm or corporation?

Do you ever indorse paper for the accommodation of any person; firm or corporation?

Bank accounts

State last date of taking trial balance and if same proved

Regular times of balancing books

Please sign here

Date signed 19

Address

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Section 1. Whoever wilfully and knowingly makes any false statements in writing of his or her property valuation, real or personal, or both, or of his or her indebtedness for the purpose of obtaining credit from any person, company, copartnership, association or corporation, shall be deemed guilty of a felony and upon conviction thereof may be imprisoned in the state prison for a period of not exceeding one year and fined any sum not exceeding one thousand dollars. Approved May 13, 19

ently arranged columns for the assets and liabilities, and special spaces for entering contingent liabilities, as well as for special memoranda on the second page. Somewhat unusual is the excerpt from the state laws emphasizing the importance of stating facts and figures exactly.

off as these receivables are collected, would be classified as current loans, or seasonal advances. From the standpoint of good banking, they should be liquidated once or twice a year, that is, between seasons.

Notes Payable for Paper Sold. If a concern is borrowing its full line from its bankers, provided, of course, that the banks are able to grant all the credit to which it is entitled, then it should not use a note broker at the same time. If it is doing both and giving notes for merchandise, it is engaged in precarious business and should come under the careful scrutiny of its bankers. There have been times when certain corporations have discounted considerable paper through brokers and then have had a lapse of memory and failed to enter the liability on their statements. However, the item is easily checked up from the lists of paper offered for sale by the various bankers.

Accounts Payable. Under this caption should be included amounts unpaid for purchases in contrast to accrued liabilities such as interest, taxes, labor, and so on. If the business of the borrower is conducted properly and is in good credit standing, accounts payable will contain only bills not due or not subject to discount. If trade terms and net sales are known, the banker can determine fairly well whether bills are being paid promptly.

Deposits of Money with Us. This item of the statement covers loans from friends or relatives, or the savings of employees which may be held in trust, all of which is often repayable at the caprice of those depositing the money. Concerns listing this kind of a liability often may have reached the outside limit of safety on loans from these sources.

Reserves. If all of a bank's customers who filled out statements were accountants, they would understand that this item under liabilities, as shown in Figure 20, represents allocations of surplus for the purpose of

conserving a concern's financial interests. The figures are obtained by reducing the surplus available for dividends. Whatever this reserve may be termed, it is in reality a part of the general surplus of the business. It indicates to the banker, however, a tendency toward careful financing. If the debit or offsetting entries are proper charges against the income, then the so-called reserves should be deducted from the assets to which they relate. This is the procedure for reserve for bad debts, which is taken from the quick assets shown in the analysis, and for the reserve for depreciation on the plant, which is taken from the slow assets.

This summary of a statement analysis, then, gives a bird's-eye view of the way bankers size up credits from this point of view. Figures 32 and 33 illustrate simple types of statement which meet the usual requirements and are adaptable to almost any bank's routine. By interpreting them correctly the credit officer goes a long way toward safeguarding the bank's funds. But there are still other important details to be considered in connection with the statement. They will be taken up in later chapters.

CHAPTER VII

DETERMINING THE PERSONAL RISK

DURING its first year of business a wholesale firm in the Northwest received loans from its bank amounting to \$33,000. This was an unusual accommodation in view of the fact that the firm was capitalized for only \$50,000. With the exception of a small amount spent for necessary fixtures, most of the firm's capital was invested in merchandise. But the bank's officers saw beyond mere figures. They saw that the members of the firm had ability, capacity, and vision. One proof of it was their cautious and conservative policy of selling, which confined their trade territory to a single state in the beginning.

The bank also made a thorough investigation into the past history of the men in control of the business and, finding the morale to be excellent, gave them its confidence and support. How it cooperated in up-building the business is indicated by these figures of increasing capital and surplus, and bank indebtedness:

Year	Capital and Surplus	Indebtedness to the Bank	Year	Capital and Surplus	Indebtedness to the Bank
1900	\$ 50,000	\$ 33,000	1908	\$105,000	\$ 75,000
1901	60,000	54,000	1909	110,000	63,000
1902	62,000	56,000	1910	123,000	64,000
1903	73,000	65,000	1911	144,000	58,000
1904	89,000	67,000	1912	170,000	61,000
1905	96,000	70,000	1913	184,000	72,000
1906	99,000	112,000	1914	195,000	52,000
1907	105,000	103,000	1915	215,000	64,000

In 1906, the capital and surplus totaled \$99,000. The indebtedness to the bank that year totaled \$112,000. In 1907 the capital and surplus moved forward to \$105,000, while the indebtedness to the bank for that year totaled \$103,000. Taken at their face value, these figures seem to be out of proportion from the credit viewpoint of the banker. Especially so since it is admitted that this firm was comparatively new in the jobbing field when its indebtedness to the bank reached the highest point. Why did the bank go so far in its cooperation?

The answer is that the bank was extending credit, not so much upon the strength of the financial statement, as outlined in the previous chapter, but upon the integrity of the men back of the business and their ability to handle it. Here was a case where good banking judgment played an important part.

This example, which is typical of many that are considered by bankers from day to day, illustrates clearly that the final analysis of credits is primarily an analysis of the "moral risk."

The moral risk is the risk involved in entrusting funds to individuals, as such. However successful a man may have been in the past in making investments, his methods of success, rather than the success itself, must be accepted as a criterion for his future actions, when considering him as an applicant for a line of credit. Many successful business men have been finally ruined when their unbusinesslike methods, which they have concealed in the past, have come to light and they have shaken the confidence of bankers and associates.

If a man who applies for a loan is unknown to the bank, the first step is to consider his credentials and letters of introduction. These letters should be from business men of prominence and standing whose authority and recommendations the bank accepts.

It is probably worth noting here that the new-business departments, which are described in the volume on advertising and service, exert a strong influence in the direction of keeping the credit department advised of the character of customers who call at the bank for the first time.

A BIT OF TEAM WORK BETWEEN THESE TWO DEPARTMENTS
THAT HELPS TO GET NEW BUSINESS

A national bank in the East, for example, maintains a new-business department which promptly makes a record of each newcomer. Besides his name and address, the customer is asked to tell his line of business and his past banking connections. All this data is noted on a plain 3 by 5-inch card which goes into an alphabetical file. A duplicate is sent promptly to the head of the credit department. When the officers hold their morning conferences, to consider loan applications of the previous day, the list of new customers is read. The credit department then sends out letters to suppliers, other banks, and so on, to determine the character and personal worth of the newcomer. When the answers are received, they are placed permanently in the credit files.

In this way the bank promptly gains possession of definite and valuable information which may be quickly referred to in case the customer asks for credit. Other similar methods of handling this sort of information to best advantage are described in Chapters I and XIV.

How this simple plan works out is illustrated by the following incident: A business man who had long been a valued customer of a bank introduced a woman to one of the officers. After the preliminary information had been placed on the card, the credit manager began his search for additional information. He found that the woman lived in comfortable circumstances in a

fine residence neighborhood and was related to a family of wealth and good reputation. He also learned that she recently had received an inheritance. She also was interested in church and charitable work. All this information he placed on the card for the permanent credit file.

A few days later a department store called the bank and asked about the woman's credit standing. A favorable report was given with the result that the woman a little later returned to the bank and opened a checking account with an initial deposit of \$5,000.

She also expressed to the credit manager her appreciation of the bank's cooperation in making a favorable report on her application for credit at the store. This is only one of many similar instances wherein the bank has found it easy, with the aid of the new-business department, to determine the personal hazard.

Of much the same character is the method employed by an Ohio trust and savings bank. It furnishes to the stockholders, directors, officers, members of the force, and old customers, small booklets each containing 10 introduction cards. Each card (Figure 35) is easily detached on a perforated line. When the prospective new customer receives one of these cards he naturally has quicker access to the officers. When he calls at the bank, the officer who meets him tactfully questions him concerning his business and banking connections. This information is set down on a form like that shown in Figure 36. Letters are sent out to past banking and business connections to check up on the customer's statement and the results of this inquiry are sent to the files for reference.

Supplementing this, the bank subscribes to a clipping bureau and scans the daily newspapers of the city for any reference to customers. In addition, any observation or gossip that bears properly on the customer's standing is also noted and all of these data are placed on

CREDIT DEPARTMENT

John H. Hayes,
1414 North Ohio Street,
Canton, Ohio.

April 31

In the Court of Common Pleas, under date April 31, judgment was rendered for \$76.40 in favor of the Smith Tool Works against the party above named

February 30

Item in Newspaper (clipping attached) John H. Hayes, residing at the number above was arrested for speeding and fined \$7 and costs in Police Court No. 3.

IMPORTANT INFORMATION

Figure 34: Supplementing its other information about depositors, this bank pastes all newspaper clippings of importance on a form like this.

Canton, April 16 191

Frank Collins, Cashier
First Trust & Savings Bank
Canton, Ohio

Dear Mr. Collins:

This will introduce to you

Mr. John Hayes

See
Signature
Below

whose signature is affixed hereto, to whom I have recommended your institution and for whom I bespeak your courteous attention.

Mr. Hayes has been doing his business with the Gibraltar Trust Company, but through the inattention and discourtesy of the Teller with whom he is compelled to transact his business, and because the Cashier of the Gibraltar is too busy to regulate Teller's conduct, Mr. Hayes finds it impossible to continue his dealings there.

Very respectfully yours,

James H. Lunt

John Hayes
Recipient's Signature

Figure 35: This customer introduction card gives the reason for the depositor's dissatisfaction with his former banking connection, which proves a valuable guide in guarding against similar mistakes in this bank.

ACCOUNT OPENED																																	
Name <u>John Hayes</u> (In case of a company state whether incorporated or not)																																	
Address <u>156 West Madison Street</u>			Date <u>April 31st, 1918</u>																														
Business <u>Painter and Paperhanger</u>			Business Phone <u>Main 6170</u>																														
			Residence Phone <u>Ravenswood 3</u>																														
Character of Account: Business or Personal <u>Both</u> First Deposit <u>\$180.44</u>																																	
If Borrowing Account, State Terms <u>Man of limited means-- may require small temporary credit</u>																																	
Probable Balance \$ <u>Average about \$200.</u> Interest <u>No interest</u> Com. <u>No.</u>																																	
Other Bank Accounts <u>Bank of British Columbia, Reference followed up</u>																																	
Last Account Kept with <u>Bank of British Columbia--closing to this bank</u>																																	
Reason for Changing <u>Recently came to this city to reside</u>																																	
Introduced by <u>James H. Lunt (our stockholder)</u>				Acknowledged <u>Letter of thanks to sponsor</u>																													
Account Opened and Signatures Taken by <u>Frank Collins</u>																																	
Resolutions for Signing Taken by <u>Not incorporated</u>																																	
Check Book <u>Regular folding pocket</u> Other Supplies <u>No indorsing stamp</u>																																	
REMARKS																																	
State below any personal, private or general information of value, and also note any special terms or arrangements with reference to loans, free collections of items, and so forth. In the case of a firm, give the names of all partners, and if incorporated the names and titles of officers.																																	
<u>Mr. John Hayes recently came to Canton from Lilyfield, Alberta. He has established himself</u> <u>at the address above noted in a small wall paper and paint business. His stock of merchandise</u> <u>is very small, and he can at this time hardly be classed as a merchant Will do jobs himself</u> <u>until business may require an assistant He is introduced to us by Mr. James H. Lunt, for</u> <u>whom he has done work. Bank of British Columbia reports this depositor a moral man; free from</u> <u>ill report in his transactions with bank. Average balance carried past year \$360 59</u> <u>Present worth of this depositor about \$900</u>																																	
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">1</td> <td style="width: 25%;">Cashier initials this</td> <td style="width: 5%;">5</td> <td style="width: 25%;">Receiving Teller</td> <td style="width: 5%;">9</td> <td style="width: 25%;">Individual Bk</td> <td style="width: 5%;">13</td> </tr> <tr> <td>2</td> <td>Asst Cashier</td> <td>6</td> <td>Note Teller</td> <td>10</td> <td>Statement Clerk</td> <td>14</td> </tr> <tr> <td>3</td> <td>Auditor</td> <td>7</td> <td>Coll Teller</td> <td>11</td> <td>Stenographer</td> <td>15</td> </tr> <tr> <td>4</td> <td>Payer</td> <td>8</td> <td>General Bookkeeper</td> <td>12</td> <td></td> <td>16</td> </tr> </table>						1	Cashier initials this	5	Receiving Teller	9	Individual Bk	13	2	Asst Cashier	6	Note Teller	10	Statement Clerk	14	3	Auditor	7	Coll Teller	11	Stenographer	15	4	Payer	8	General Bookkeeper	12		16
1	Cashier initials this	5	Receiving Teller	9	Individual Bk	13																											
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3	Auditor	7	Coll Teller	11	Stenographer	15																											
4	Payer	8	General Bookkeeper	12		16																											

Figure 36: How thoroughly one bank investigates the standing of new depositors is shown by this summary for the files. The facts are usually obtained from the prospective customer himself, after which his references are investigated and followed up for verification.

a form like that shown in Figure 34. This record attached to the individual credit file, gives the officers valuable up-to-the-minute information in case the customer applies for credit.

Methods like these naturally simplify the increasingly important task of gaging the true worth of the borrower. It is thus easier to learn the state of his finances, his credit, and his past record. In fact, from many sources the information is gathered which forms the basis for estimating the applicant's moral risk. The smaller this risk, the more favorably inclined is the bank toward lending to applicant.

Thus, when the bank knows the customer, the advisability of extending credit may be apparent very quickly. If first the honesty of the applicant is established by personal knowledge, as already described, the other phases governing the granting of a loan are then considered. Honesty, therefore, probably more than any other single factor, determines the advisability of accepting the borrower's application. The moral risk, the business career, the personal record—all these are embodied in this one quality.

Inasmuch as the character of the borrower is reflected in his conduct of business, it naturally follows that the bank should seek to get his full business history. Applicants are frequently turned down because they do not present the facts of what they are doing in an easily understandable way. This weakness has helped to hasten the development of the outside audit in many instances (Chapter XI).

One man will often make a more orderly and convincing showing of his business than another, but if a man does not have his affairs in orderly condition, or show a good grasp of them, that in itself argues heavily against him as a risk. In these days of keen competition there is a presumption of doubt among bankers about the continued success of any man who does not

have a good grasp of the details of his business. The man whose affairs are in confusion, who does not have fresh and detailed inventories, who neglects his collections, who is careless about insurance, who does not systematically calculate his costs, and, in short, who does not keep his affairs in perfectly intelligible condition, does not deserve a full measure of consideration from the credit department of his bank.

GETTING AT THE PERSONAL ELEMENT BEHIND THE
FIGURES WHEN GRANTING CREDIT

Thus the principal facts which the bank should request from a borrower concern after all his personal tendencies. Has he always paid his debts, and done so in a prompt and businesslike way? Does he keep his promises? Are his expectations based upon knowledge and intelligent calculation, or are they mere guesses? If he is new in the community he should be asked to show the previous records of his business elsewhere. If he is just starting in business for himself, he should offer his complete personal record as an employee.

Bankers cannot be expected to lend money to borrowers who cannot show their personal worthiness, established by years of upright conduct. Therefore, the more promptly and fully the applicant shows this up, without being pressed for it, the more promptly, and favorably, the bank may form its conclusions.

With the borrower's personal character for integrity and reliability is closely associated his established reputation for business capacity. The banker should know what his experience has been, and what success he has had. This has a direct bearing upon his claim for a line of credit.

And finally, the borrower should have a proper proportion of capital of his own in the business, and should be able to show that what he borrows from the bank is for temporary use and will correspondingly

increase his quick assets. Everything that he owes the bank should be offset by merchandise that in the natural course of trade will be moved quickly. It is not prudent either from the viewpoint of the bank or of the borrower to supply money to invest in the plant or in real estate.

A manufacturing concern, established only a short time and doing a good business, sought its first loan. Its chief officer made application in person at the bank president's office. With some pride, he exhibited photographs showing the plant, exterior and interior.

"We have the finest little factory in the city," he said, "and it's paid for. We own the equipment, free of debt. Except for raw material, we do not owe a dollar. We sell our product on long credits. We want to grow, but we haven't the money to carry more accounts. We want the bank to help us extend our credit lines."

The banker fumbled the photographs for a moment and complimented their artistic finish. Then he tossed them aside abruptly. Tempering his words with a kindly smile, he said:

"Photographs do not represent the best security. We do not lend on real estate or factory equipment. A factory may be the best in the world, yet be idle tomorrow. In the applications that come to us, it is very common for business men to emphasize their fixed assets and minimize those that are liquid. We would reverse this reasoning.

"Now, I'll tell you what to do. Just forget that you have the finest little factory in the city. Bring us a statement showing what you have done in the past six months. Make a list of your accounts receivable, with all the information you can furnish concerning the firms that you owe money. Then, if you choose, let us know about yourselves—your capital, stockholders, officers, stocks of goods, organization, systems

of accounts and costkeeping, insurance, advertising, buying, salesmanship, and the like. But remember that we want especially to know about the customers who owe you money. Do not be afraid of going too much into detail about them. No banker ever tires of listening to biographical information in which he is interested, that involves cash. Your customers are the people who make up our tangible security when we make you a loan."

When he reached his office, the manufacturer did what the banker asked. He made up a list of his accounts receivable; on every big account he gave the rating and financial condition of the concern, showed how much he owed, how long the account had run, the average time this firm had taken to pay before. He proved that his customers were mostly solid concerns who paid on long time but regularly. He showed that his accounts payable were more than covered by the raw material at the plant.

Then appreciating the banker's cooperation and interest, he invited him to inspect the plant. He explained to the visitor his organization, his various production systems, his selling plan, pointed out particularly his well-balanced costs, his small selling expense, and his safe margin of profit.

By that time the banker was eager to make the loan. His frank talk with the applicant had borne fruitful results. The manufacturer eventually got a loan equal to one half his accounts receivable and became a most desirable customer. This instance shows how the progressive banker can get at the true condition of applicants and how he can increase his business and choose customers of good moral risk.

Another illustration serves still further to emphasize this point. A concern needed more money. Its own bank had lent to the limit of the firm's line of credit. The president of the company and the president of

another bank met for the first time. The manufacturer stated his case frankly.

"We want to borrow \$25,000," he said. "No doubt you know about us, and don't need to be told that we've got a high-class product and a good market. Here's our financial statement. It shows our assets to be triple our liabilities."

•

WHY THIS BANK REFUSED TO MAKE A LOAN ON AN
OTHERWISE SOUND STATEMENT

The bank president scanned the single sheet handed him. It showed simply the main items, in totals, but gave no below-the-surface details.

"Looks pretty good, doesn't it?" remarked the manufacturer, with assurance.

"Yes," assented the banker, "it's good so far as it goes. But our discount committee would not authorize a loan on this report."

The would-be borrower at first was inclined to take offense. He thought the standing of his concern ought to count for something, and he named a commercial agency, as an additional reference.

The bank president did not answer, but took from his desk file a somewhat bulky document.

"Here," he said, "is a statement filed with us today by a concern much larger than yours. Not only is it made in almost painful detail, but it is certified to by an audit company."

Then the banker read off the headings. The statement began with the usual tabulated totals. Then it took up the capital stock, both preferred and common, and went into detail concerning its history, ownership, and legal aspects; it gave the dividend methods; it showed that the surplus, if any, belonged to the common shareholders.

Then followed a list of the insurance carried, itemized by companies, amounts and expirations. All policies,

the report showed, carried an 80% coinsurance clause. The company never had suffered a fire loss.

Next came information regarding the company's banking connections with the statement that checks could be signed by the president, secretary, treasurer, or manager, and were required to be countersigned by certain officers. Appended to this was the report of the audit company showing that all vouchers had been checked and proved.

Following, came a series of inventory tables, giving merchandise, prices, real estate values and the like. There were detailed tables, too, of income and expense, returned goods, bills receivable, and bills payable. The annual and average profits were shown, and there was a "liquidated statement," which aimed to show what could be realized should the company quit. Added to this was a financial statement in detail.

A list of creditors followed, with the amounts, the dates due, and the names of the officers of the corporations. The company showed that it did not indorse for outsiders nor allow its officers to do so. Nor was there any contingent obligation, pending suit, or judgment. No debts were past due, and all merchandise bills were discounted within 10 days.

The individual record of the company's officers was included in the document. The main headings were: age, salary, business record, married or single, interest in the company, clubs, insurance, duties, habits, outside interests, liabilities, health and education.

When the bank president finished reading these headings, the applicant by his side sat for a few seconds in meditative attitude. Then he picked up his own little single page statement, and smiled.

"It will take us several days to get up a thing of that sort," he said, "but we can do it. I didn't know banking had become such a science."

A week later he got the loan.

This banker knew how to judge the personal risk and he knew how to get from his customers the information that would enable him to judge correctly. Thoroughness and tact, evidently, are the qualities for the banker to exercise in dealing with applicants. Then not only is all the information to judge the risk readily forthcoming, but new and profitable business follows for the bank as well.

CHAPTER VIII

APPRAISING THE BORROWER'S FINANCIAL CONDITION

ANYTHING approaching final and accurate credit information concerning the borrower must come from those who are actively engaged in the business, or from experts armed with the facts developed from a detailed audit of the borrower's books. This audit, as outlined in Chapter XI, may be the work either of public accountants or of auditors of the bank to which application for a loan is made. But even then all of the facts have to be thoroughly sifted and analyzed with reference to their reciprocal influences for the banker to see them in their proper balance for credit purposes.

It is necessary, therefore, bankers have found, to go beyond the figures of a financial statement, as set forth in Chapter VI, in order to determine the applicant's true financial condition. The figures really are only the vehicle by which the real basic facts of the business are obtained.

Let us take, for example, the condensed balance sheet of an eastern concern, which reads:

ASSETS

Real estate and improvements.....	\$ 50,434.30
Stocks and bonds.....	35,462.09
Cash.....	8,479.19
Accounts receivable.....	47,329.77
Inventory.....	45,899.00
Total.....	<u>\$187,604.35</u>

LIABILITIES

Capital stock.....	\$ 75,000.00
Bonded debt.....	10,000.00
Bills payable.....	39,538.83
Accounts payable.....	18,619.00
Accrued interest and dividends.....	1,437.50
Reserves.....	5,809.02
Surplus.....	37,200.00
Total.....	<u>\$187,604.35</u>

These figures, of course, are interesting. They may have been audited and may have the appearance of mirroring a model business. Perhaps they do. Yet the banker cannot know even from the statements of a most favorable character. He has to know. He wants every item of information possible to determine the status of the business for his own protection. That is why many corporations, on the recommendation of their bankers, issue additional reports including probably a property account, a surplus account, and statements of various facts connected with the construction work and the operation of the properties. These detailed statements are usually available for the inspection of the bank's credit department and the company's stockholders and are of decided importance in amplifying the statements of the balance sheet and the income accounts.

On the surface these reports appear intricate and technical, but it is not always difficult to find out exactly what they mean. As a matter of practice, their preparation involves all of the financial points that make up the structure of the business. Therefore, careful consideration of the figures of a statement like that shown above, which presents a mass of important information in small compass, is necessary to reach a correct judgment of the concern's worth. And this, bankers have found, requires untiring patience and extreme caution.

The income account of a borrower is a statement of receipts and disbursements for a given period. Net earnings are derived by subtracting operating expenses from gross earnings and other income. In addition to charging operating expenses against gross income, every well-regulated concern which is borrowing, will charge an additional sum for depreciation, the amount depending upon the character of the business and the nature of the property. The amount of probable loss from wear and tear is calculated, and while some of it is met by replacements, and repairs, there is nevertheless a continual deterioration which can only be represented by a depreciation account.

HOW IS THE BALANCE APPLICABLE TO DIVIDENDS PROPERLY
DISTRIBUTED IN THE INCOME ACCOUNT?

From net earnings, interest on bonds and floating debt is paid and a sum is set aside as a sinking fund for the eventual retirement of the bonded debt. This amount is usually determined in advance of any probable bond issue and is stipulated in the mortgage or trust deed securing the bonds. After subtracting from net earnings the interest and sinking fund outlay, the balance is applicable to the stock. If preferred stock has been issued it is a first claim upon this balance and the dividend is paid at a given rate; the remainder, or so much of it as the directors may determine, is paid as a dividend upon common stock.

The general balance sheet is much the same as that already described in Chapter VI and consists of a statement of assets and liabilities. Under assets are listed the property of the concern and debts due it. Under liabilities we find the company's obligations to its stockholders and creditors—to the one group, capital stock; and to the other, bonds, notes, and other evidences of indebtedness. The amount necessary to make the two columns balance may receive

almost any name, such as "profit and loss," "surplus," or "deficit." The corporation naturally wants to have this balance on the liability side of the ledger, thus showing a surplus of assets over liabilities.

To go into the subject in greater actual detail, let us take an imaginary industrial corporation and try to secure some knowledge of its condition by a comparison of two annual statements. This will be better than to consider only a single annual report, for a comparison of the business by years gives the best estimate of the company's progress and financial condition. We will suppose that a certain corporation is capitalized originally at \$900,000—\$500,000 consisting of common stock and \$400,000 of preferred at 7%. Prior to the date of the first report we shall consider that the corporation issued bonds to the amount of \$500,000. The general balances for two years (Figure 37) show the items set opposite each other for purposes of comparison, and also the net increase or decrease.

Let us suppose that the property account has increased \$100,000 during the year and that preferred stock has been reduced \$100,000, while the bonded debt has increased \$200,000. From this it is reasonable to infer that \$100,000 of preferred stock has been retired by the issuance of an equal amount of bonds and that another \$100,000 of bonds has gone into betterments. Bills and accounts have been closely collected during the year while on the other hand the company's obligation in the form of outstanding bills and accounts has been materially increased.

The company holds considerable bonds and stocks of other companies and further investments of these holdings show a heavy increase. The depreciation account, which is carried as a continuing liability to offset the property account and to represent wear and tear, has increased by \$40,000, and \$21,000 has gone into the sinking fund. This item of \$21,000 belongs

A COMPARISON OF ANNUAL STATEMENTS				
ASSETS				
	Second Year	First Year	Increase	Decrease
Property account.....	\$1,325,000	\$1,225,000	\$100,000	.....
Inventories.....	90,000	100,000	.....	\$ 10,000
Bills receivable.....	20,000	30,000	.....	10,000
Accounts receivable.....	18,000	25,000	.....	7,000
Trustees of sinking fund....	96,000	75,000	21,000	.....
Bonds and stocks.....	219,000	100,000	119,000	.....
Other investments.....	135,000	100,000	35,000	.....
Cash.....	15,000	20,000	.....	5,000
	<u>\$1,918,000</u>	<u>\$1,675,000</u>	<u>\$275,000</u>	<u>\$ 32,000</u>
LIABILITIES				
	Second year	First year	Increase	Decrease
Common stock.....	\$500,000	\$500,000	.....	.....
Preferred stock.....	300,000	400,000	.....	\$100,000
Bonded debt.....	700,000	500,000	\$200,000	.....
Bills payable.....	35,000	25,000	10,000	.....
Accounts payable.....	100,000	40,000	60,000	.....
Depreciation.....	140,000	100,000	40,000	.....
Sinking fund.....	96,000	75,000	21,000	.....
Profit and loss.....	47,000	35,000	12,000	.....
	<u>\$1,918,000</u>	<u>\$1,675,000</u>	<u>\$343,000</u>	<u>\$100,000</u>

Figure 37: One of the best ways to discover what a borrower is worth, all will agree, is to compare successive annual financial statements. How the above figures are analyzed is set forth fully in this chapter.

INCOME ACCOUNT			
For year ending December 31 —	Second year	First year,	
Gross earnings.....	\$450,000	\$475,000	
Other income.....	4,000	3,000	
Gross income.....	<u>\$454,000</u>	<u>\$478,000</u>	
Operating expenses.....	\$306,500	\$332,000	
Depreciation.....	<u>40,000</u>	<u>40,000</u>	
	<u>346,500</u>	<u>372,000</u>	
Net earnings.....	<u>\$107,500</u>	<u>\$106,000</u>	
Interest.....	\$ 30,000	\$ 25,000	
Sinking fund.....	<u>21,000</u>	<u>18,000</u>	
	<u>51,000</u>	<u>40,000</u>	
Balance applicable to stock.....	<u>\$ 56,500</u>	<u>\$ 65,000</u>	
Dividend on preferred stock (7%).....	<u>24,500</u>	<u>29,000</u>	
Balance applicable to common stock.....	<u>\$ 32,000</u>	<u>\$ 38,000</u>	
Common dividend.....	<u>20,000</u>	<u>25,000</u>	
Surplus for the year.....	<u>\$ 12,000</u>	<u>\$ 13,000</u>	

Figure 38: This income account sheet affords a valuable comparison of a business over two annual periods. How this analysis helps the banker to determine fully a borrower's worth is told on page 118.

on both sides of the balance sheet, because the money or securities representing it are held by the sinking fund trustees as an asset to discharge the sinking fund liability. The year shows a profit of \$12,000.

Let us now consider the income account. There has been a falling off of gross earnings, but this has been offset by a reduction in operating expenses. Interest has increased from \$25,000 to \$30,000, which is accounted for by the issuance of \$200,000 of new 5% bonds on which one semiannual payment of interest has been made. (See Figure 38).

The amount set aside for the sinking fund has been correspondingly increased while the dividend on preferred stock has been reduced by \$3,500, the semi-annual dividend on the \$100,000 retired by the issuance of bonds. To depreciation is charged \$40,000. After the payment of operating expenses, fixed charges and preferred dividends, \$32,000 remains applicable to common stock as against \$38,000 the preceding year and the directors have declared a dividend of 4%, leaving a net surplus of \$12,000.

Thus far the examination is superficial and might lead to the conclusion that the company is on a sound footing with increasing prosperity. But there is much more in the statement than is seen at first glance and dividends may have been declared that have never been actually earned.

It is worth noting that, notwithstanding the large falling off of gross earnings, there is a corresponding reduction in operating expenses. This decrease in operation may be entirely legitimate although operating expenses do not usually respond so quickly to a decreased income unless the curtailment is due to the lopping off of unprofitable lines of trade or to a reduction in prices consequent upon a corresponding decrease in the cost of production. It is not unreasonable to suppose, however, that in the present instance oper-

ating expenses have been kept down by the company's failure to charge to them the cost of replacements and renewals which may have been capitalized and paid for from the proceeds of the bond issue.

It is very easy when replacing an old machine or an old building with a new and a modern one, to treat the improvement as an addition to property when, as a matter of fact, it adds nothing to the earning capacity and is merely a replacement. If it is a material addition to the plant it justifies the increase of the company's indebtedness because the added earning power will presumably be sufficient to meet the debt, or the added safety, durability or efficiency will result in compensating benefits. But if, for example, a concrete structure has replaced a wooden one, a difficult question may arise as to how much of the cost should be charged against earnings and how much to the property account which, of course, would form the basis for a new bond issue. To issue bonds for the entire cost of such an improvement instead of charging it to earnings would be as ill-advised as issuing bonds to pay dividends.

Still other items in the balance sheet deserve consideration. Accounts and bills due the company have been reduced while outstanding obligations, particularly accounts payable, have heavily increased. The reduction of these paper assets may only be an evidence of cautious management, while the increase of liabilities may mean nothing more than that the company is taking advantage of market conditions or an increased credit. Nevertheless these changes are so great as to compel the bank's credit officer to make inquiry, for as a rule the items of bills and accounts receivable and payable should remain at a fairly constant ratio.

The items of bonds and stocks and other investments show a large increase. Is it possible that the

increase of these investment holdings may have some relation to the reduction of bills and accounts receivable? Is it not also possible that a part of the new issue of bonds has been paid for in bonds and stocks of other companies instead of in cash? Is it reasonable to find the bond and stock investments of such an industrial corporation increased from \$100,000 to \$219,000 in the course of a year and other investments not associated with the business increased from \$100,000 to \$135,000, unless these investments have to do with the sinking fund? These investments may be high grade and quickly convertible into cash when occasion arises, but on the other hand the large increase in the holdings suggests that the concern may be branching out into other lines of business and holding securities of speculative or questionable value. Such securities might be unsalable and of little value for the purpose of hypothecation if the company should find itself in need of cash to meet outstanding bills.

DOES THE ANALYSIS OF THE STATEMENT SHOW THAT
EMERGENCIES MAY ARISE IN THE BUSINESS?

It is pertinent now to inquire whether the analysis suggests that an emergency may arise in the business. As already indicated, there may be ground for questioning the earning power of the concern, but nothing has appeared which shows a dangerous condition. However, the banker wants not only to believe but to know that conditions are favorable or unfavorable. Are there enough of "quick assets" to meet current liabilities? Bills and accounts payable stand at \$135,000, an increase of more than 100% over the amount of current liabilities of the preceding year. The bills will shortly mature and the accounts probably average about 60 days. How much of the assets will respond to a quick call for payment? We look first at the cash, which has fallen to \$15,000. The

total amount of bills and accounts receivable has been reduced to \$38,000 and it is not safe to count upon all of this as being absolutely good and immediately collectable. Unless, therefore, the items of bonds, stocks, and other investments are so high grade that they can be quickly realized upon, our concern is in danger of immediate insolvency.

Thus does the cautious banker go into every detail connected with a borrower's business. Only in this way can he know that he is lending safely. The example just considered is, of course, more or less technical and may not be typical of many borrowers. However it offers an illustration of one phase of work which the banker will have to cover from time to time. To take up the analysis in a way to cover the more simple phases of lending, it is essential primarily to remember that merchandise sold is merchandise "credits" and merchandise bought is merchandise "debits." Net sales is merchandise credits or gross sales, less all returns, necessary allowances, and similar expenditures incurred.

The cost of material or merchandise consumed represents the inventory at the beginning of the year, plus the material or the merchandise purchased during the current year (mostly merchandise debits), less the inventory of the current year.

The actual expense of conducting the business is considered to be manufacturing cost, the selling, office, general, and administrative expenses. Under this condensed form of arriving at a financial statement this head would include repairs, renewals, and replacements unless the business is so poor that the borrower attempts to capitalize these items.

Right here contingent liabilities is a subject that deserves careful consideration. Frequently a statement is submitted with the word "none" written after questions pertaining to this item when, as a matter of

fact, the concern sending in the statement has under discount a considerable line of customers' paper, which is a contingent liability until it is paid by the customer or by the concern itself, for customers do not always pay. Paper of this kind, originally taken for overdue accounts, if renewed often and then shifted from one bank to another, would be listed as "notes payable," since it has become an actual and no longer a contingent liability. When a company has obligated itself on stock subscriptions, on indorsements for the benefit of others, on guarantees to make good any defects on contract work or goods sold, on purchase contracts for future delivery, on various kinds of bonds, and so on, the banker should know it. Furthermore, when the obligations are somewhat large, reserves should be established to meet the probable contingencies which might arise.

Under "notes payable" the borrower should be asked to "state the maximum amount borrowed from all sources during the fiscal year just closed" because most concerns close their books and make up annual statements between seasons when their business is employing the least or no borrowed money, thus presenting the best figures. The proportion of "quick" assets and liabilities changes perceptibly when firms are carrying maximum liabilities.

Consequently, there is sufficient justification for the banker to ask many questions if he is going to determine accurately what excess there is of quick assets over current liabilities, what the proportion is, and what the net worth is. Most of the necessary questions for an ordinary business are on the forms shown in Chapter VI. It is impossible, however, to make up one form which will cover all classes of business and not leave something, perhaps, to be desired. When these special problems come up, the bank necessarily has to make even a more rigid inquiry.

INSERT VI

In
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of

Let us take, for example, an analysis of three simple statements (Insert VI) to illustrate many of the points already discussed:

The purpose of the number 1 figures is to demonstrate the value to the banker of comparing statements. With only the current statement on hand, the question would not arise as to the source of the surplus of \$30,800. By comparing it with the first year, however, we find that good will and patents of \$25,000, which does not pay debts, make up part of it, and there is a profit to the surplus of \$700. Where do they get \$8,100 more than the first statement shows? The creditors have more risk in this business than the stockholders. Quick debts almost equal quick assets, and the mortgage leaves but little encouragement in permanent assets. A comparison of the buildings, machinery and fixtures looks as if repairs, renewals, and replacements are being capitalized. It is regarded as imprudent for a bank to make a loan on such a statement without collateral or indorsements. Even then the indorsements of people, who would lend their name to such methods, are not entitled to a great deal of consideration.

The number 2 figures demonstrate the value of a profit and loss statement. A capital statement, as already shown, tells you only half the facts. This concern actually lost money, which of itself is no disgrace. The depreciation of \$6,900, however, is a farce, as it is on inventory, which was overvalued. This concern was not justified in paying dividends. The plant is marked up \$17,000 and not depreciated. A correct statement would show depletion of the capital stock. The concern improved the statement by placing a mortgage of \$40,000 on the property and reducing the quick debt \$30,000; but that is only a shifting of the obligation. Not having the proper proportion of quick assets, it received accommodation

on the indorsement of people who were interested. Many bankers do not look favorably on indorsements, which are usually overrated and continue indefinitely.

The first analysis showing 1.42 as the ratio of quick assets to liabilities does not justify loans, but the 2.29 ratio does. After the first analysis, the investments proved to be really high-class stocks and bonds listed on the stock exchanges, which made them quick assets.

These examples show the simple side of the analysis problem. The credit man of the bank should go deeper, however, and compare current figures with those of previous years. Present figures, too, should be compared with the statements of other good concerns in the same line of business, for in this way the bank is able to establish an elaborate and valuable volume of statistics on—

The average net sales per \$1 of quick assets, per \$1 of working capital, and per \$1 of total capital.

How net sales line up with merchandise on hand, accounts receivable, and notes payable.

The percentage of fixed assets, of liabilities, of net worth.

The percentage earned on net sales, on capital stock, on working capital, and on true net worth.

It is also desirable to establish the liquidating values of accounts receivable and merchandise in different classes of business so that the proper proportion of quick assets for each line of business may be easily judged. Thus the banker can have figures at his elbow which will help him to get at the root of a concern's worth, for in these days of competition it is necessary to know all the facts, to determine every point of credit in order to make loans as liberally as possible and still safeguard the bank.

CHAPTER IX

WEIGHING THE PERSONAL EQUATION IN FARMER CREDIT

A CERTAIN country bank in southern Illinois had charge-offs of nearly \$1,500 on its loan account during a period of four years, and yet only \$125 of the total loss was due to poor farm risks. Loans to farmers, in fact, made a credit showing of practically 100%.

"I consider farmers among the most potential and valuable customers a bank can have," says the cashier of this institution. "I have proved them to be gilt-edged risks. There is no reason why every banker shouldn't feel the same way about lending to them, provided, of course, he uses the same good judgment and caution in granting a farmer's application that he does in lending to others. The trouble, as I see it, has been that bankers have failed to give the necessary attention to the subject of loans to farmers. I'm satisfied with my experience and see no reason why I shouldn't increase my business from this source."

Investigation shows that the opportunities many banks have for serving the farmer are almost unlimited. The farm business of the country has been going ahead at a tremendous rate. Yet the credit of the farmer has, it seems, continued to be, in some sections at least, a more or less uncertain quantity. In numerous communities there has been what might almost be called an antipathy toward lending farmers money. Not only because the notes usually were issued to run for

a long term, but because it seemed difficult to appraise the farmers' financial standing accurately.

Now, however, farm loans are growing rapidly in favor. Farmers are seeing more clearly the necessity of handling their finances on a definite basis and many of them are able to show their bankers why they are entitled to temporary loans the same as the merchant or manufacturer. For this reason the banker in a farming community should be quick to respond to the credit needs of these customers. Some of the most prosperous smaller banks of the country have grown so because they discovered in advance of their competitors the value of the farmer as a personal risk.

Since the Joint Stock Land Bank was established, bankers have an additional incentive to encourage farmers' business, because the bugbear of tying funds up for a long time in farm risks has been dissipated. The farmer can get his long-term accommodations from the Joint Stock Land Bank as pointed out in the volume of this series on loans and discounts, and he can thus feel more free to approach his home banker for temporary needs. The banker in turn has his funds liquid for investment in short-term paper so that he can easier take care of the farmer's temporary needs. Therefore the outlook for increased lending to farmers could hardly be more encouraging.

Yet farm loans often have no more significance to some bankers than ordinary mortgage or cattle paper. These types of loans are fully described in the volume on loans and discounts. In the following pages, however, we will consider the farmer in his newer relations with the bank as purely a commercial risk—a personal borrower—just as the merchant borrows on his line of credit. Certainly the ideas brought out will suggest ways to increase or take on this type of business to reap benefits, like the banker mentioned at the beginning of this chapter has gained.

"We take care of farmers who wish to borrow, just as we do the ordinary business man," says a Michigan banker. "After careful inquiry and investigation, we lend them on their own responsibility when we consider them good.

"We use an agricultural credit statement to help us to get at a farmer's true net worth, and we try to have each applicant understand that every other farmer must fill out one of these blanks in order to obtain a line of credit. In other words, there is no partiality or no distrust of any one farmer. Each has the opportunity to establish a regular business line of credit if he is worthy. We find that our farmers have a sense of real pride in being on the same plane with other business men. They like to know that the banking line of demarkation between the city man and the farmer is disappearing so far as purely commercial risks are concerned. The way we have put the necessity for statements and financial facts up to our farmers has really flattered them. They appreciate the service we are giving them as a mark of recognition of their worth. There is no reason why all farmers who are entitled to credit could not be made to see the banker's attitude in the right light. We have an idea that it is simply up to the banker—with his broad vision and knowledge of finance—to show the farmer the path to real cooperation between himself and the bank."

The statement used by this banker is reproduced in Figure 39. He has had practical and profitable success in getting financial histories of farmers in this way.

TAKING THE BAD LOSS BUGABOO OUT OF FARM LOAN
BUSINESS OFFERS INTERESTING POSSIBILITIES

Another banker located in Illinois uses a card record (Figure 40) to supplement the statement. This card, front and reverse, gives at a glance a summarized analysis of the farmer's worth as a credit

AGRICULTURAL CREDIT STATEMENT
CONFIDENTIAL

Name _____ **To** _____ **Bank** _____

Address _____

For the purpose of obtaining a line of credit with you not to exceed \$_____, I tender the following as a true and accurate statement of my farming business on _____ 19____, and agree to notify you promptly of any change affecting my ability to pay. I shall use this loan for the following purposes:_____

ASSETS (Property owned by undersigned)			LIABILITIES (Debts of undersigned)		
Cash in bank and on hand			Notes to bank		
Notes due to me, good			Notes to others		
Accounts due to me, good			Accounts payable (store, and so forth)		
Other personal property (stocks, bonds, and so forth)			Other debts		
Notes and accounts owed to me and past due,			Mortgages on real estate total (list on reverse side)		
(face value \$) cash value			Chattel mortgages, judgments, or liens total (list on reverse side)		
Real estate total selling value (list on reverse side)					
Machinery and tools total selling value (list on reverse side)					
Live stock total selling value (list on reverse side)					
			Total Liabilities		
Total Assets			Net Worth		

I am indorser for _____ Amount \$ _____

Amount \$ _____

I carry \$_____ life insurance payable to_____

Cash value \$_____

I carry \$_____ fire insurance payable to _____

Other insurance_____

References

Date _____ **Signature** _____

Signature _____

Figure 39: One banker who has developed a profitable farm loan business uses this statement to get at the applicant's real worth. It is difficult for many farmers to submit a satisfactory statement, but this form is gotten up so simply that the applicant usually has no trouble

	By Whom	For What	When Due	Amount
Notes				
Mortgages				
Accounts				
Judgments				
			Total	

[illegible]

New University Farm - Cattle & Property									
	Jan. 1, 19		Jan. 1, 19			Jan. 1, 19		Jan. 1, 19	
	No.	Value	No.	Value		No.	Value	No.	Value
Cattle									
Horses									
Hogs									
Sheep									
Poultry									
Feeds and Other Supplies									
Mowing Machine									
Potato Digger									
Potato Planter									
Cream Separator									
Carried Forward								Total	
								Increase or Decrease \$	

To Whom	For What	When Due	Amount		Int. Rate	Int. Pd. to what date.
			Original	Still Unpaid		
Notes						
Mortgages						
Accounts						
Judgments						
		Total				

Receipts (last year) Milk, Butter, Eggs, Poultry, Live Stock, Crops, and so forth		Expenses (last year)	
\$	Brought for'd \$	Labor \$	Brought for'd \$
\$		Hired Teams \$	
\$		Feed purch'd \$	
\$		Hay purch'd \$	
\$		Fertilizers \$	
\$		Seed \$	
\$		Taxes \$	
Carried for'd \$	Total \$	Carried for'd \$	Total \$
		RECEIPTS LESS EXPENSES \$	

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risk and the amount of loans granted. Filed alphabetically it is of striking value in judging these credits.

As a matter of fact, lack of some such arrangement has been one of the greatest weaknesses in the farm credit situation. Bankers have in many instances based their loans to farmers on their own personal estimate of the applicants, with too little knowledge of actual farming conditions. A statement, however, helps the banker to chart the credit worth of a farmer's business and offers facts and figures to supplement the estimate already placed on the applicant's capacity and character in a more accurate manner.

An eastern banker uses a statement similar to that already described and reproduced on page 173 of the volume on loans and discounts, and finds it most effective for handling short-term loans to farmers. It automatically raises the standard of bookkeeping among farmer customers, which is an important factor in putting farming on a business basis. No progressive bank is likely to overlook a profitable field of business and it has been the backwardness with which many farm owners have handled their bookkeeping that has made it impossible for some bankers to make much headway in building up a profitable farm loan business. To this end plans have been fostered by banks like that described in the chapter on how to increase the farmer's borrowing power in the volume on loans and discounts. Banks, of course, do not want to overlook any good business, and that is why they are going more deeply into the farm loan problem.

One banker has extended his business among farmers by encouraging them to become his regular customers, even if only in a small way. He has urged each one to open a checking account, a move too many farmers fail to make as soon as they should. This enables the bank to size up the customer's ability and methods of financing. The officers can more easily get acquainted

with him. Thus, when he wants a loan they are in close enough touch with him to tell whether his request deserves favorable consideration. Getting acquainted in this way enables the banker to talk frankly with the farmer about his affairs. The two meet on common ground in their business transactions.

Date Due	Number	Amount	Date Paid	Date Due	Number	Amount	Date Paid
Name				Date			
Business		Residence		P. O. Address			
Real estate owned						Value	
						\$	Prompt ?
							Slow ?
							Very slow ?
							Honest ?
Less encumbrance to							Good manager ?
							Habits ?
Personal property						Not value	
						\$	
Less outside debts							
Total net worth						\$	
Insurance carried ?							
Any chattel mortgages ?							
Liability as indorser							
Remarks							

Figure 40: An Illinois bank has overcome the difficulty of getting accurate farm credit information by classifying these risks as shown (front and reverse). Notice how the important details are emphasized.

Here is one of the points to keep in mind in handling the rural customer. It is pretty difficult, investigation shows, to get at an applicant's financial strength while still preserving a distant attitude that causes the farmer to close up like a clam. And the farmer often is just sensitive enough to resent this aloofness. A banker can be dignified and yet still be approachable. If he deals with his farmer customer in a friendly way he will then feel no hesitation in asking him for a statement of his financial affairs, for a mutual understanding will already have been established.

"My own experience as cashier of a country bank," says a Missouri banker, "is that a statement can readily be obtained provided care is taken to impress upon the customer the importance of such a statement and the advantage there is to him personally in giving it. It is no trouble to convince the average man that it is far better for the bank to get its knowledge of his financial condition from him direct than from outside sources. And, once the statement is given, it almost invariably works out that the borrower is bound more closely as a customer, because he knows the bank is now completely informed as to his condition and can and will take care of him according to his needs. I never had a refusal where a good statement could be made and I never came across a serious misrepresentation from my farmer customers."

The Farmers and Merchants State Bank, of Decatur, Illinois, reaches some farmers and enlarges its list of customers satisfactorily by cooperating with local grain buyers. A number of the farmers in that community who raise crops to sell to the grain buyers often wish some money in advance. This usually takes more capital than the grain men can furnish. To help the farmer, therefore, the grain buyer takes his note for the amount he wants in advance, indorses it, and then gives it back. The farmer then comes to the bank and discounts the note. He has the alternative of taking the amount of the note in cash or opening an account and leaving on deposit all or part of the total sum.

The bank thus is advancing its funds on desirable two-name paper. The plan is especially profitable because it brings the farmers into the bank and tends to make them permanent customers. Besides, it gives them the best sort of acquaintanceship with banking methods. They become familiar with the bank's policies and quickly see the value of careful financing and of building up individual credit.

John R. Pogue, the president, says that considerable business has resulted from the plan. Aside from the new customers obtained, the proposition is worth while from the standpoint of putting idle funds to work and the bank is safeguarded by having the grain buyer's indorsement on the notes. Thus, if a farmer encounters misfortune the grain buyer stands ready to make good the amount borrowed.

Most bankers agree that there should be no distinction between the interest rates to farmers and those to business men. All conditions otherwise being equal the basis for charges is just the same.

IS THE OWNER OF A FARM ALWAYS A SAFER
RISK THAN THE RENTER?

One question of importance that sometimes arises in considering the granting of credit to farmers is where to draw the line between the owner and the renter. How nearly should the renter approach the owner in receiving credit accommodation? Usually, investigation shows, the owner of a farm has the advantage at the bank. On the other hand, a level-headed renter may at times obtain a larger line of credit than an owner who is careless with his finances. If conditions are favorable, many bankers have no hesitancy in making short-term loans to renters—that is, on 90- to 180-day notes. But to do this the officers must know completely the essential facts about the borrower. There can be no guesswork or mere personal opinion in financing of this kind.

If the borrower is a regular customer of the bank, the officers frequently can get a good line on his operations by watching the fluctuations in his bank balance. A complete personal file like that described in Chapter I also helps. In fact, the notations of a personal nature thus recorded may have an important bearing on the safety of a bank's credits. For instance,

one bank was saved from expensive litigation by having on file the memorandum concerning a payment made six years previous on a transfer of a piece of real estate. The rough notes on the transaction proved better evidence than the entry made on the cash book. The case was never carried beyond the justice court.

Another bank keeps a personal file of this sort in alphabetical folders so that at any time its officers can size up the credit possibilities of any farmer in the community, whether a borrower or not. Each individual farmer has qualities of capacity and character to consider different from every other one. It is only by having every possible fact about this type of borrower that the banker can proceed safely in granting a line of credit.

Knowing the facts, bankers are able to lend without security to responsible farmers \$100, \$200, \$400, or even more temporarily to buy stock or new equipment, to help harvest crops, or to meet any other legitimate business needs. "As a rule," comments a middle-western banker, "worth-while farmer customers are conservative and do not ask for a cent more than they actually require, for they do not want to meet any unnecessary interest payments. Personally, I consider farm loans on the whole to be better than any other credit investment we can make. Of course, the best loan officer will sometimes make a mistake. We make one sometimes. However, our losses on loans to farmers have been almost negligible."

"If a farmer is detained unavoidably," adds this banker, "we do not expect him to travel miles to town to take care of his interest or his renewal. We know he will appear at the earliest possible moment."

To sum up, every bank in a farm community can probably widen its farmer business by developing these customers into safe personal risks and giving all who are financially worthy a definite line of credit.

CHAPTER X

HOW MUCH TO LEND TO FARMERS

TO what extent should the banker grant credit to farmers? This question, perhaps, is still open to argument. Bankers in different sections of the country, because of local conditions, may rightly have somewhat different restrictions on loans of this character. Yet, generally speaking, the opportunity to serve the farmer borrower is fairly similar everywhere. And this opportunity does not always stop with the lending of a few hundred dollars to a responsible owner or renter. It goes sometimes far beyond that simple service to actually refinancing a borrower just as the city banker sometimes finds it necessary and advisable to refinance one of his customers.

This chapter, therefore, will recount not only some of the ways in which bankers have lent money profitably to their farmer borrowers, but also one or two instances of how they have extended their credit facilities to refinance a capable customer. The ideas set forth should indicate particularly to country bankers the possibilities within their grasp to widen their influence profitably and to render at the same time a real service to the community. Progressive bankers serve farmers somewhat according to the way they size up these customers in their own environment. In other words, a country banker who wants to make the most of his opportunities for business will not judge a farmer's capabilities and financial responsibility simply by contact inside the bank.

"I make it a point to go out and talk to our farmer customers on their own ground where usually they feel more free to tell about what they are doing than they probably would be in the bank," says one banker. "If I find that a farmer is attentive to his duties and shows good business ability, I will lend him what he needs in small instalments, even though he may be a renter. In fact, sometimes a renter who is a particularly careful business man, may be a better risk than the man who owns a farm and does not know how to run it. For instance, if in talking to a man I find that he is more interested in baseball than he is in his farm, I will be pretty careful about lending him any money, even if he does happen to be the owner. Sometimes owners have had their farms left to them and may not be practical workers themselves. A thrifty renter, however, may often be a valuable customer."

To prove his point the banker cited the example of a renter who asked him for a loan to purchase a tractor. This farmer had for several years been diligent and fairly successful, but he had not gotten to the point where he could purchase a farm outright, although he was earning good profits. He farmed very systematically and had worked out a number of tables for information secured from the state experiment station to show just what he could do, and what he could save by using a tractor. He brought his figures to the banker and convinced him that he could save enough in wages and in horse feed to pay for fully 50% of the tractor during the season; and the other 50% as soon as he had received his income from the crops.

The banker had a fairly complete record of the applicant's progress and knew that he could be depended upon. The farmer got the loan, which he paid according to his promise. Another instance of how progressive country bankers size up credits comes from the Middle West.

A farmer had bought 150 acres of land and had made a payment of \$5,000 down. The remainder was to be paid in yearly instalments of \$500, the seller of the farm having accepted the buyer's note on that basis. But the new owner had used all of his available cash to make the first payment on the farm and did not have the money on hand at the start to pay his help.

Although he had just come into the community and was unknown to the banker, he visited the bank at the beginning of the season and became acquainted. He asked to borrow \$75 a month for the four busy summer months in order to take care of his payroll. In answer to the banker's questions he explained exactly how much he had paid on the farm and proved that he owned all his equipment; he also told the banker he thought he would be able to pay all of the four notes as soon as his crops were sold.

ANOTHER INSTANCE OF WHERE THE BORROWER'S CHARACTER
FORMED THE BASIS OF CREDIT

The banker at first hesitated chiefly for two reasons: First, the farmer was practically a stranger to him, although, of course, it would be a simple task to check him up; second, the applicant's method of paying for the farm in instalments on a personal note might, in case of an emergency result in two conflicting demands on the farmer's resources, that of the individual noteholder and that of the bank itself.

So the banker asked this applicant to wait a day or two to give him time to think it over. He then carefully investigated the man's previous farming experience and also his reputation. Finding that his industry and efforts in the past were good and that he bore an excellent reputation, the banker in this instance finally decided to help the farmer to meet his payroll. The notes were simply personal and carried no

collateral except the tangible evidence that the man was going ahead with his crops and would no doubt make a fair profit at the end of the season. And the banker played safe because he knew all the facts, which in the final analysis were favorable.

In the Far West a banker received an application from a farmer for a loan of \$10,000 to start a new herd. This farmer was in good financial condition, owned his farm and had plenty of equipment, but he wanted to go into the breeding of pure bred live stock, and did not have enough cash on hand to start off as well as he thought he ought to. He explained all this to the banker. He did not, however, have down in black and white how much money he was going to invest. In fact, he confessed that he was not sure he would require the full amount asked for.

The banker knew this man to be a successful farmer and was willing to lend him the amount necessary to establish the herd, but first advised him to check up very carefully on the price he was going to pay for the pure bred stock, and to furnish exact figures of how much money he would require. The applicant followed the instructions to the letter for he saw the wisdom of the banker's advice. The banker then lent him slightly less than the original amount and took a chattel mortgage on the herd, which is customary practice of banks in making cattle loans. The loan ran for three years, and was paid back in instalments that came due twice a year. In this instance the banker also required the customer to take out insurance on the cattle to further protect the paper.

"One trouble we have had in gaining the confidence of farmers and helping them to the limit has been their fear that we, as bankers, were trying to 'squeeze them out of their property,'" declares an Iowa banker. "Until the last few years, it is undoubtedly true that speculative and unscrupulous so-called bankers have

operated in various sections for the express purpose of getting valuable pieces of farm land ridiculously cheap. This sort of banker, however, cannot prosper any more. In fact, under present state and federal regulations it is practically impossible for him to operate at all. Therefore, bankers today have every incentive to get closer to the farmer and to show him that his best interests can under no circumstances be other than those of the banker himself who obviously wants his institution to grow and enjoy the confidence of the community. It requires a high type of business man to be a successful banker now. And this type of man in the country bank will get so close to the problems of farming that he will see legitimate ways of refinancing farmers who become involved in unexpected financial difficulties, through no fault of their own."

To illustrate his point this banker told how he had refinanced several farmers successfully. One instance shows how far he goes to cooperate with his customers. A farmer lost 25 cattle by drowning when they broke through the ice of a river that ran through his property. Here was an unforeseen setback. The banker, however, lent him the money to replace the loss. But, as sometimes happens, accidents do not always come singly. A few months later this farmer's biggest barn burned. While he had insurance, yet it was not sufficient to cover all the loss of time involved in rebuilding and taking proper care of the stock that had to be replaced. To help him refinance himself the bank granted still further credit. The two losses, of course, meant a serious setback to the farmer; but he was able eventually to find himself financially.

On the other hand, unless the banker was sure of his man, it would have been folly to grant him credit in the two emergencies. Both accidents might have been due to carelessness. A careless business farmer, as everyone knows, is not a good credit risk

ordinarily. Investigation in this case, however, showed an entire absence of carelessness. And so it is that bankers are able to perform innumerable services for farmers. While the results of this cooperation in increased profits may be slow of realization, they are sure and permanent. The main thing is to make the service so spontaneous that the farmer knows it is absolutely sincere.

In this direction the banker can increase his own business and help the farmer to gain the proper line of credit for his needs by urging him to follow as nearly as possible this financial program:

1. Own only good productive land.
2. Have a small portion of your farm in non-tillable land.
3. Have good but not unduly expensive improvements.
4. Be located on a main road in a good neighborhood where there are many other good farms.
5. Be reasonably near—two to six miles—to a good town.
6. Have the reputation of always paying your debts when due.
7. If possible, ask for a loan that will be 45% or less of the value of the land alone.
8. Live on and operate your own farm.
9. Present all the facts just as they are, when making an application.
10. Never let your taxes run delinquent.
11. Avoid litigation—lawsuits.
12. Keep your name off of notes, bonds, and so on.
13. Borrow for productive purposes, but not to obtain luxuries.
14. Deal only with local agents known to be honest and reliable.

By helping the farmer to understand the fundamentals of credit then, the banker, whether large or small is able to cooperate with him to the limit. Thereby he gains a more profitable customer and increases his own opportunities for a wider and a more appreciated service.

PART III

FORTIFYING YOUR CREDIT POLICY

CHAPTER XI

AUDITS THAT GUARD AGAINST LOSS

AN eastern bank asked the head of a perfumery concern for a statement of its condition. It already had a line of credit amounting to \$25,000. When the bank's credit officer examined the statement, he found that the concern was carrying a large quantity of dead stock and was listing among the accounts receivable a large number of items long past due. The bank was unwilling to keep the credit line open, until it knew more definitely the exact condition of this customer's affairs.

Since the character of the business was not considered among the so-called staple lines, the bank requested an audit by an outside certified accountant. When the auditor finished his work, he was able to furnish a concise and impartial report covering the entire activity of the firm. The bank then called in the customer and induced him to charge off a large amount of past-due accounts and reduce the stock that had been on the shelves for a long time. After this was done, both the manufacturer and the bank knew exactly where they stood, and the bank, fortified by the figures produced in the audit, was able to continue financing the firm with less danger of loss.

This illustrates in an interesting way the value of the outside audit in determining the credit risk.

The views of the vice-president of a national bank, which has a corps of auditors under the direction of the credit department, sums up in a typical way the

attitude of other bankers who recognize the systematic audit as an effective instrument in safeguarding credits. He says: "When a business appears to be making no progress as indicated by a comparison of the statements, or when we have reason to believe that a concern is not turning its stock fast enough, or is carrying slow past-due accounts as live assets, it is necessary to make a careful examination. By auditing the books we can almost always tell if the business is hampered by dry rot or failure to make a proper classification of the records. Ordinarily, we send out our own auditors to look over the books to determine how affairs stand, but as a rule, they do not undertake the comprehensive audit of a certified accountant.

"The reason for this is that we believe that thorough audits, to be of genuine value, should be taken during inventory time at the end of the fiscal year, which in the majority of cases is around January first. Should a concern justify an audit at this time we recommend it to the customer. He almost always complies and pays for the expense incurred."

This banker says that in the many detailed audits which have been made as a result of his advice, the customers have almost always appreciated the result, since it enabled them to put their finger on the weak spots in their business and to stimulate certain profitable branches of the work previously neglected through ignorance.

In, these days of competition, the bank can no longer sponsor business conducted by hit-or-miss methods. The credit officers of progressive banks insist that a customer who applies for credit must know what it costs to buy or to manufacture his goods and what it costs to sell them. It is no longer sufficient to know, for example, what the total rental charge is; it is necessary to know what proportion is chargeable to the various departments of the business.

Obviously, a well-managed business should make a profit on every dollar's worth of goods sold, and bankers are recommending periodical complete audits to make this possible. By dividing business activities into four principal groups: Manufacturing, wholesaling, jobbing, and retailing, and then checking carefully the developments in each of these fields as outlined in Chapter IV, it is not difficult to know when a business is producing a legitimate profit and when it is incurring a loss.

Not long ago a concern manufacturing a specialty device for physicians applied at the bank for an extension of its line of credit. The banker had been watching the progress of this business and noted that its receivables were steadily accumulating. He called on the manufacturer to find out why. The borrower could give no explanation, except that the creditors did not pay promptly; and since they were doctors, he felt it was not advisable to press them too aggressively. All of these past-due accounts were carried on the statement as live assets. The banker insisted they should be reduced or else collected.

"Fine," retorted the customer, somewhat nettled. "It's all right to give advice, but just show me how I'm going to do it."

"I'll tell you," replied the banker, coolly, as he leaned forward in his swivel chair, "and I'm sure you'll recognize the practical help we're trying to give you. Let a first-class audit concern go over your books, analyze your outstanding accounts receivable, and take the necessary tactful steps to reduce them."

The visitor, actually happy over the prospect of being relieved personally from settling the difficult problem, consented to the plan and willingly agreed to stand the expense. He thanked the banker for outlining the way out and forthwith ordered a complete audit of the books.

"We found from the auditors' report," said this banker "that there had been no pretense at keeping accurate costs. This was a serious drawback because the manufactured article was by no means staple, and subject, indeed, to the whims of a particular class. We told the manufacturer that unless he adopted a definite cost system and regulated his business in a more systematic manner we would be compelled to call his loans. He pleaded for time and assured us that he would gladly follow out the recommendations made by the auditors."

HERE'S AN ALMOST UNLIMITED FIELD FOR WORTH-WHILE
SERVICE TO YOUR CUSTOMERS

As a result of this audit, about \$12,000 in old accounts which had been on the books for a long time were cleaned up within 90 days, simply because the auditors insisted on having the collections made. To liquidate the balance the concern promised to set up a special reserve from time to time. Thus, every 30 days a certain amount was credited to the reserve for the purpose of reducing the amount held in slow accounts. Gradually this burden was lifted and the concern eventually got into the favored borrower class.

In another city, a manufacturing concern bought out the interests of a partnership in a similar line of business, and made application to its bank for an increased line of credit. The enlarged company showed a net worth of \$106,000, but in checking over the statement the bank found that many of the items appeared to have exaggerated values. The borrower was asked to submit a statement prepared by an outside auditing firm, and although the officers demurred at first, they finally consented to have the work done because upon this detailed report depended the chance of getting more money. After the auditors finished their work they found that the net worth was

\$82,000 instead of \$106,000. The audit disclosed the fact that the company had been lax in its bookkeeping methods for several years and that the taking over of the partnership had created further confusion. The manager of the concern was induced to install a complete new system as a result of the audit and after this was accomplished the bank was willing to give the credit originally asked for.

"In fact, we were more willing to grant the line after we had received the audit, even in the face of the decrease in the net worth," said this banker, "because we knew accurately the condition of the customer's business. In all of the statements that the concern had submitted prior to this time we felt that there was more or less guesswork but, because its margin of profit was ample, we never insisted upon a complete audit. After the books were overhauled, the manager felt that the action was decidedly worth while to stop leaks and cut hidden expenses which had been constantly climbing. The audit cost in the neighborhood of \$600, but this man told me that the advantages which resulted repaid him within a month."

The audit plan is of special value, too, in handling the item of depreciation. Haphazard methods of disposing of depreciation figures are now giving place to more uniform ways of treating them, simply through the development of the periodical audit. One concern for instance, may carry in its statement the depreciation charges for the current year only. Another may show no depreciation whatever. It seems difficult, therefore, for the banker to figure out what policy has been followed with reference to depreciation in many cases, without the clear analysis of a thorough audit. Of course, values are at best approximate, but the record of failures shows that many concerns in the past have overvalued their plant and machinery accounts in order to swell the assets.

The statement of a business prepared by an auditor aims to show the cost value of an asset and the amount of depreciation which has been established against that cost. Ordinarily, repairs and maintenance should not be included in the cost, but should be charged against current earnings. The exception would be the purchase of a knock-down value of a plant, on which repairs are necessary to bring it up to proper working condition. In this event the repairs are properly a part of the original cost and should be included as such. It is desirable also to know the percentage of depreciation annually. An audit aims to establish clearly the relation of the depreciation account, annually and over a period of years, to the fixed assets.

**A CAREFUL AUDIT MAY SHOW SOME INTERESTING FACTS
ABOUT THE QUICK ASSETS**

Audits have almost always demonstrated that the weakness in a statement lies in the fact that the borrower is inclined to magnify his assets and depreciate his liabilities. As already indicated, no two statements are alike, and it would be difficult if not actually unwise, to apply any arbitrary rule in passing on an application. Still, it is the credit man's task to see that the borrower's optimism about his assets does not lend unwarranted color to the statement for the purpose of obtaining credit. The audit helps materially to attain this end.

Liabilities cannot be liquidated from fixed investments, and the burden of sustaining and carrying on the business, therefore, falls upon the quick assets. A careful audit will detect any tendency to load the quick assets with items scheduled under the fixed assets. It is always more important, as already indicated, to know that the concern is making money rather than to learn whether it possesses certain property rights. Out of the profits, the loans must

be paid. Audits have shown in many instances that the statement is unconsciously false, due mainly to poor bookkeeping methods which actually deceive the borrower. The value of an independent audit, therefore, asserts itself mainly in checking the customer who overestimates or who is too confident of success.

When a statement is made it should be correct. In order to present the conditions honestly and properly, an annual inventory should be taken and an accurate set of books maintained. When the bank compels the customer to observe definite care in the preparation of the statement, it helps him also to become a better business man. He usually improves his buying methods because the audit compels him to become familiar with his stock. He grows more careful in extending credit and he is not so much inclined to take on new obligations because he learns the actual value and limitations of his business.

Another significant advantage that follows the audit is the prompt detection of any tendency to manipulate the merchandise accounts, as indicated in the statement. This item should be examined carefully since it sometimes opens the way to misleading statements which endanger the risk. Merchandise is worth, not what it originally cost, but what it will bring. When stock on hand is appraised at its selling price, the temptation is to anticipate profits and this represents a form of gambling which the banker strongly opposes. Auditors often have run across a padded merchandise account and have promptly cut it down to cost, which is the nearest correct basis of figuring. Again auditors can determine whether merchandise is seasonable and salable and how long it should take, at the ratio of turnover prevailing in that particular line, to turn this merchandise into money.

Other pertinent questions relating to the merchandise which auditors go into thoroughly providing the

borrower has not covered them, are: Is it finished or unfinished? How and when was the price determined and who marked it? Are there liens of any character against the goods? Is the merchandise fresh? Is any of it under consignment?

All of this information and much more along the same line are revealed by a complete audit. This data then becomes a valuable guide to the bank in determining how far it can go in making loans. Except at the end of the fiscal year, an auditor's time usually does not permit him to verify the inventory by actual appraisal, nor is he able to verify the accounts and bills receivable by correspondence with the debtors. On the whole, however, he performs a valuable service in finding out how the business is moving and then offering recommendations which almost always lead to improvements which strengthen the risk.

While it is probably true in granting credit, whether in the form of loans or of merchandise, that the personal equation and a knowledge of the past record of the customer are primary considerations, the financial statement is, after all, the practical basis for determining credit. One of the first points to determine, therefore, is whether the statement has been audited. An audited statement, as suggested in previous paragraphs, is valuable, since it is the report of a disinterested investigator on the condition of a business, as against one made up by the concern itself.

The initial step in analyzing an audited statement is to group the figures in order to bring out strongly the leading facts. For instance, the information from the statement (Figure 41) is transferred to a "comparison of statements" (Figure 42) and grouped to accomplish this result. The assets are separated into the two definite classifications: (1) those of a current paying character, and (2) those of a permanent character.

Credit men, as already indicated in Chapter VI, usually require a 2 for 1 condition, or, in other words,

\$2 of quick assets to cover \$1 of debt. Where a statement varies from this condition, the cause should be accurately determined. The 2 to 1 ratio of "quicks" is not an absolute standard, simply a working rule. A common method of indicating the percentage is to divide the quick assets by the current liabilities. Let us now take the statement, item for item.

After the information from the statement has been transferred to the "comparison of statements" (Figure 42), and it is found that the ratio of current assets to current liabilities is such as to warrant the extension of credit, then the credit officer begins to analyze and compare the different items of the report. First he considers the assets. He analyzes those items of a liquid character rather minutely because they are of primary importance in considering banking and commercial credit. Fixed assets interest him as much on account of the carrying charges which they may involve as on account of their ultimate, realizable value. Bonds, for example, involve a current liability for interest charges.

In this particular statement the items indicate a good cash position, which is generally a mark of a healthy condition. In some instances, a nominal cash item is shown, due probably to the borrower's practice of using a large portion of available cash to retire outstanding obligations just prior to the statement date.

It is also desirable to know whether time certificates of deposit are included in the cash item, for, while these certificates represent actual cash on deposit, they may be used as collateral against loans, which might not show on the face of the statement.

The most vital point to be considered in the analysis of notes receivable is whether the figure shown represents notes from customers only, obtained in the regular course of business. If included in this amount are notes due from subsidiary or affiliated interests,

WILEY PROVISION CO.			
RAVERSWOOD, ILL.			
Statement as of December 31, 1917			
Assets		Liabilities	
Notes Payable	\$300,000.00	Cash	\$ 44,112.58
Accounts Payable	34,779.16	Notes Receivable	52,212.11
Accrued Interest	781.10	Accounts Receivable	253,162.68
Bonded Debt (5,000 Expenses Annually)	50,000.00	Merchandise	406,075.04
Reserve for Bonus and so forth	12,561.22	Real Estate Buildings and so forth	164,073.78
Capital		Investment in A.B.C. Can Co	90,000.00
Preferred (6% Cumulative)	350,000.00	Loans to Officers, Employees and so forth	6,826.32
Common	200,000.00	Deferred Assets	3,902.15
Surplus	318,232.17	Machinery and Fixtures	46,009.02
	<u>\$1,266,373.65</u>	Patents and Good Will	200,000.00
			<u>\$1,266,373.65</u>
Sales (1917)		\$2,344,146.89	
Profits		\$73,991.67	
Dividends 6% Preferred		6% Common	
Depreciation		\$12,681.27	

Figure 41: Here is an example of a concise business statement for use in comparing the figures shown in Figure 42. From statements like this the banker is able to analyze and estimate the worth of a borrower.

REAL ESTATE																							
DESCRIPTION State Nature of Buildings and so forth	LOCATION Number and Street	TITLE is in Name of	ASSESSED for	MORTGAGES	MORTGAGED to	When Due	Rate																
INDIVIDUAL STATEMENT Short form NAME _____ ADDRESS _____ NATURE OF BUSINESS _____ For the purpose of establishing credit with the MARSHALL AND HUSLEY BANK, MILWAUKEE, WISCONSIN I state that I am conservatively worth in my own name above all liabilities, at least \$ _____ Dollars and that the following is a true statement of my assets and liabilities. (Note: For real estate give only equity below and fill out form for description on back) ASSETS <table border="1"> <tr> <td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td> </tr> </table> LIABILITIES <table border="1"> <tr> <td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td> </tr> </table> Dated Milwaukee, Wis. _____ 191____ Signed _____																							

Figure 43: This individual statement form helps one bank to measure a borrower's worth in real estate and furnishes a valuable record. The reverse (upper form) is for a detailed description of the property listed.

FINANCIAL STATEMENTS

Comparison of Statements.
Wiley Provision Co., Ravenswood, Illinois.
Business—Wholesale Provision.

RECD.	DIRECT.
ASSETS.	Dec. 31, 1917.
Cash.....	\$ 44,112.58
Bills Receivable, Customers.....	52,212.11
Accounts Receivable, Customers.....	253,162.68
Merchandise, finished.....	(
Merchandise, unfinished.....	406,075.04
Raw material.....	(
TOTAL QUICK ASSETS.....	\$755,562.41
Real Estate.....	(
Buildings.....	)164,073.75
Machinery and Fixtures.....	48,009.02
Patents and Good Will.....	200,000.00
Investments.....	90,000.00
Loans to Officers and so forth.....	6,826.32
Deferred Assets.....	3,902.15
TOTAL.....	\$1,266,373.65
LIABILITIES.	
Bills Payable, Merchandise	
Bills Payable to own Banks.....	\$300,000.00
Bills Payable, otherwise	
Accounts Payable.....	34,779.16
Accrued Interest.....	781.10
Bonded Debt retirement.....	5,000.00
Reserve for Bonus and so forth.....	12,581.22
Total Current Liabilities.....	\$353,141.48
Bonded Debt (when due) 1923.....	\$ 45,000.00
Mortgage Loans (when due).....	
Total Liabilities.....	398,141.48
Capital (Auth. Pref. 6% Cum...)	350,000.00
(Auth. Com.....)	200,000.00
Surplus and Undivided Profits..	318,232.17
Total.....	\$1,266,373.65
Total Quick Assets.....	755,562.41
Current Liabilities.....	353,141.48
EXCESS—QUICK.....	\$402,420.93
Sales.....	\$2,344,146.89
Contingent Liabilities.....	
Insurance.....	
Dividends 6%.....	21,000.00
C.....	16,000.00
Depreciation.....	12,881.27
Net Profits.....	73,991.67
Outside Means.....	

Figure 42: Sheets like these, used for comparison of borrowers' statements, are of great value to the credit manager in determining risks, and guarding against loss. Note how the figures are entered here from Figure 41, with blank spaces for the statement of the following year.

officers, or employees, the amount of such notes should be withdrawn and placed in the slow assets, somewhat as outlined in Chapter VI. A large notes receivable item might also reflect unfavorable business conditions in the borrower's immediate locality. At any rate, even though the statement is carefully audited and all doubtful accounts are eliminated, a certain allowance must be made for depreciation on this item, even if not in actual figures.

At times the item "notes receivable secured by real estate" (Figure 43), or some other collaterals is noted on the statement. This always leaves the impression that the prompt collection of the item is questioned. If the amount is large, an explanation from the customer should be requested.

In instances where companies sell their merchandise on an acceptance basis (Chapter XVIII), the acceptances would, of course, be available for discount with their bankers, or for disposal in the open market. This would obviate the necessity of borrowing on their own note to the full extent of their operations. The discount or sale of such acceptances unless "without recourse" would constitute a contingent liability.

ADDITIONAL FACTS ABOUT ACCOUNTS RECEIVABLE THAT
IT MAY PAY TO WATCH CAREFULLY

Another point to be scrutinized in connection with accounts receivable is whether they have been pledged in any way. Some financing concerns help business houses, which may have gotten into a weak financial position, by making advances to them, secured by the regular open book accounts. The rate for this accommodation is always higher than the average discount rate. As the accounts are settled, the proceeds are applied to the money advanced, but in hypothecating its accounts, the company remains contingently liable for their ultimate payment.

In connection with the accounts receivable, the audit should show whether all doubtful accounts have been charged off and whether, as in the case of the notes receivable, these accounts are due from customers for merchandise sold in the usual course of business.

Indebtedness due from subsidiaries or affiliated companies should not be included in the quick assets, because while the receivables so due may be liquidated from time to time, they are more or less of a permanent character and frequently represent the actual working capital or the investment in the subsidiary. Therefore, in the event of liquidation, these funds are not usually found to be of full realizable value.

The success of any business hinges largely on two points: the ability (1) to turn the stock rapidly at a profit, and (2) to collect the accounts promptly.

In the event that an abnormal amount of stock in proportion to the business is shown, the audit should indicate the reason, and if possible the bank should make inquiry regarding the prevailing conditions in the borrower's particular line of business. In some instances an unusually large inventory is necessary, due to the company's distance from its sources of supply. Seasonal conditions may at times affect inventories. In other words, the bank must determine whether the existing conditions, in conjunction with the facts revealed in the audited statement, warrant a borrower in carrying an unusual supply of merchandise at that time.

Taking up the item of real estate and buildings, the first point to be settled is that of ownership. Does the property belong to the company in fee simple, or does the title rest with a realty holding company, individuals, or others? Of what construction are the buildings? Is a sprinkler system installed? Is everything properly insured? Last, and most important, has a proper depreciation charge been made each year?

In prosperous times the temptation sometimes is strong with some concerns to spread out and make substantial additions to plants. It is here that the banker should sound a note of warning. For, while it may be true that conditions might warrant plant enlargements, serious thought must be given to whether the business is likely to continue increasing or whether the increased demand is due only to temporary conditions. The telltale figures of the periodical audit tend automatically to lessen this temptation and thus help the banker to cooperate with customers more closely than he could otherwise.

The investment item in the statement should be carefully gone over as set forth in the audit. Where a large amount appears, a schedule of the investments is valuable. If composed of government or municipal issues, or listed stock exchange securities, taken at proper valuations, the item can be considered as a current asset because of its liquid character. It should also be determined whether any are pledged as collateral on loans or otherwise. If the item represents the borrower's investment in affiliated concerns, it should be classified with the slow assets and careful consideration should be given to the company's commitments in that direction.

Where a manufacturing or distributing company controls several affiliations, through stock ownership, and is interested in their financial arrangements, a consolidated balance sheet is most essential to establish the status of the risk. Here the audited statement is valuable to the bank in safeguarding its loans.

Under the head of deferred assets are included items like advances to salesmen for traveling expenses and so on, prepaid interest, taxes, insurance premiums, and other items covering a succeeding period of operation. These should not be included in the current assets. They are only nominal assets and usually have no

realizable value. The auditor's report should show also whether there are any consignment accounts to be taken into consideration, either in the accounts receivable or in the inventory item, for it can be readily appreciated that merchandise out on consignment is not properly an account receivable until the merchandise is actually sold. Further, because the merchandise so consigned is not under the direct control of the company at all times, it is subject to incidental hazards and, therefore, should be carried under a separate classification. An audit would usually reveal a contingency of this sort where the banker might not discover it on the statement itself.

Incidentally, many bankers have found it helpful in analyzing all items of the statement to ask themselves, regarding the liquid character of each one: "Could this be turned into cash readily in the event of liquidation?" The test then is thorough.

THE NOTES PAYABLE ITEM ON THE STATEMENT WILL BEAR
THIS SPECIAL ATTENTION, YOU'LL AGREE

Another item to give special attention to is that of notes payable. It should be determined whether any or all of them are secured, either by indorsement or collateral, or in any other way. There is no fixed rule regarding the proportion of debt the average concern should show as compared with its capital investment, and while one naturally likes to see the notes payable not greatly in excess of the capital, there are so many circumstances affecting this that it cannot be reduced to any fixed ratio. The results of the audit indicate the healthy or unhealthy condition of the concern.

If the statement shows deposits of money by stockholders or interested persons, it is well to determine how the amount was arrived at, whether through dividends not withdrawn or through money loaned for the needs of the business. If the amount is large, it

may indicate that the money should actually be in the business through the issue of capital stock, for even though it is in friendly hands, in the event of trouble this money is usually the first to be drawn out. Another essential point in connection with the notes payable is to determine the peak of the company's borrowings and at what period this figure is reached. An audit would give the information desired. The amount of notes payable may also bear some relation to commodity prices, high prices requiring more capital, and vice versa.

Accounts payable represent money owed for the purchase of supplies and, comparatively speaking, they should never be large. The average company borrows money from its bank to take advantage of the cash discounts offered for the payment of bills within a specified period. A large accounts payable item is, therefore, a warning that the company is not availing itself of the discounts. Companies sometimes secure their accounts payable and consideration should be given to this possible arrangement.

The item of reserves is always worthy of close attention. Reserves set aside for a specific purpose, such as depreciation on real estate, plant, machinery, and so on, may be deducted directly from the asset which they affect. However, this is a matter of opinion, as some bankers prefer to show these reserves under the head of deferred liabilities in order to make apparent the increase which should appear in such reserves from year to year.

Reserves for replacements, repairs, or improvements, of course, should be classified under the slow liabilities, and the audit will determine whether this had been done. Reserves for discount, allowances, doubtful accounts, and so on, should, however, in all cases, be deducted from the receivable items in the assets. Reserves for taxes, interest, bonuses, payrolls,

dividends, and so on, are not properly reserves at all, but are accrued liabilities and as such should be included in the current debt.

The item of bonded debt should be given very careful thought. The audit should determine when the issue was first brought out, its original amount, how it is secured, and so on. In most instances, bond issues are secured by mortgages on the real estate, the plant, and so on. The actual security back of the issue should be learned, as there are many bond issues secured by mortgages covering both real and personal property, that is, real estate, plant, merchandise, accounts, cash, and the like, in effect a chattel mortgage on the entire assets of the company. With security of this character the bondholders have a first lien on all the assets of the company in the event of its failure.

The next step is to learn the date of the maturity of the issue, the rate of interest, and whether there is a specified annual retirement provision. There is no set rule for determining to what extent of the value of the security a bond issue may be made, the amount usually being determined by the underwriters of the issue. It must be remembered, however, that in the event of liquidation the fixed assets of any concern undergo rapid shrinkage in value. It is quite natural for the human mind to lose interest in a proposition once your own claim has been settled. In the event of a forced sale of the property, the bondholders often are interested only to the extent of their holdings.

Careful attention must also be given to the final date of maturity of a bond issue, and if this date occurs during the current year, the bank should have a clear understanding of what plans the company has in mind for refunding the issue, whether by replacing the bonds through a like issue, by issuing short-time notes of debentures, or by issuing additional capital stock. Sometimes there is a conversion clause, per-

mitting the conversion of the bonds into stock at definite periods. All such questions should be analyzed with a view to the debt-paying ability of the borrower.

The capital stock item also needs careful attention. What is the authorized issue? What is the par value? Is there any unissued stock in the treasury? Is the treasury stock ever used as collateral? Has the treasury stock or the treasury bonds appearing in the assets been deducted from the capital liability? If preferred stock has been issued, what is the rate of interest on it? If the dividends are cumulative, are any in arrears? What are the requirements for retiring preferred stock issues, if any? All these questions have to be satisfactorily answered.

It is becoming more prevalent among progressive business houses to insure the lives of the principal executives. This obviously is sound judgment, as the producing genius or geniuses of a growing concern are really one of its most valuable assets. The audit will doubtless set forth this fact so that no doubt regarding it will exist in the mind of the banker to be later thrashed out.

Frequently the death of a member of a firm causes embarrassment, and life insurance might go a long way toward paying out the interest of the deceased and relieving the firm of a possible capital stringency. Further, a life policy acquires a cash surrender value which, in the event of any difficulty or liquidation, would be available to the creditors. In the statement of a going concern, where "cash surrender value" appears as an asset, the item should be included among the investments and not as a quick asset. Life insurance could also be utilized as a sinking fund, taken out against the ultimate payment of mortgage indebtedness.

All these and other questions are often brought out much more clearly in an audited statement and report

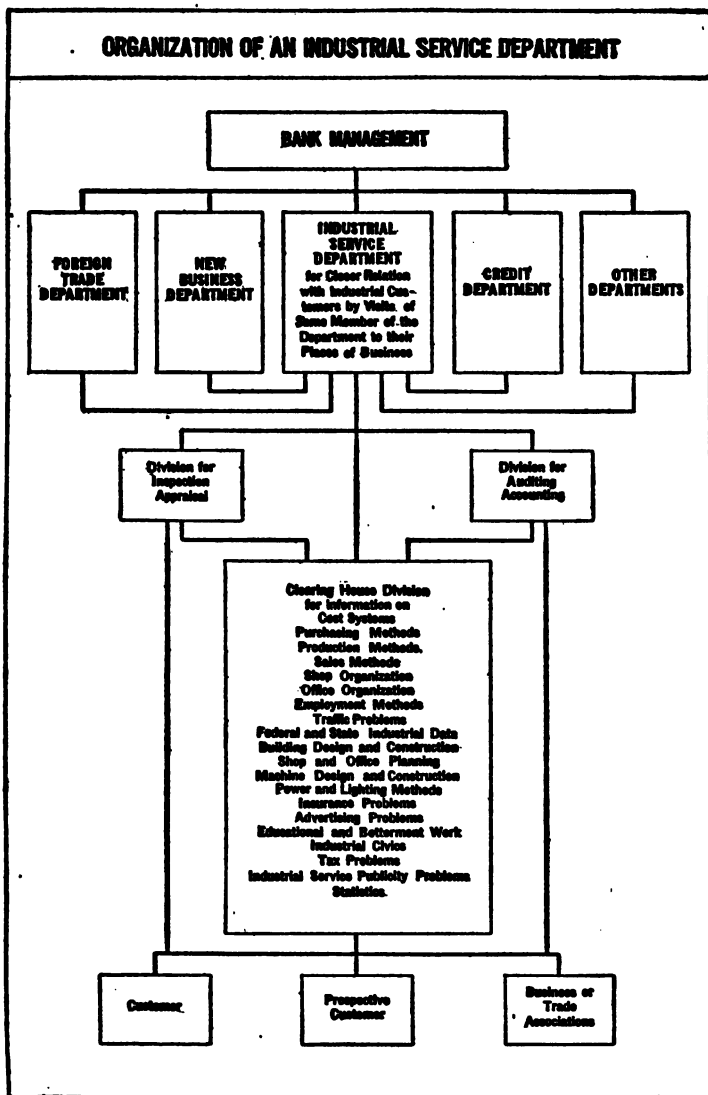


Figure 44: How far some banks are developing their service to customers is shown by this chart illustrating the industrial and credit features of an eastern bank. While such a plan would be too broad in scope for small banks it may suggest a way for extending their services.

than in one made up by officers of a company. Thus the audit clarifies the work of the bank credit officer and safeguards commercial loans. Some banks have gone even further to make credits easier to handle.

An eastern national bank, for example, has established an industrial service department to develop additional facts and angles on the condition of prospective customers and also to insure the bank against taking on, unsuspectedly, industrials which are potentially, if not actually, poor risks. This is supplementary to the help it gets from having audits made.

It is the purpose of this bureau, therefore, to aid business men in coordinating their efforts and in showing them the value of a thorough audit. By acting also as a clearing house for the latest and best information on industrial management and kindred subjects it is able to dispense helpful information to those who will be most benefited. In order to keep the service on a reciprocal basis the field embracing the bank's bureau is circularized from time to time for the purpose of ascertaining the opinion and practice of managers generally on different business problems. This circularizing need not be confined entirely to customers, although it has been found that they usually respond with greater readiness. The results of researches already made by the bureau have been embodied in printed form for distribution. How an organization like this is developed is indicated in the chart (Figure 44) reproduced on page 161.

Thus, with the growth in popularity of the outside audit, other auxiliary helps are coming into play to encourage healthy business development. All these factors not only advance business in general, but go a long way toward simplifying the bank's credit routine, which naturally cuts costs and minimizes losses. Lending money, then, instead of being a bugbear, becomes easy and profitable.

CHAPTER XII

KEEPING IN TOUCH WITH MARKET CONDITIONS

EACH month the credit department of a middle-western bank endeavors to find out the business sentiment in its community by sending out to customers "ballot" slips like this:

Present	☐ Above Normal
Business	☐ Below Normal
Conditions	☐ Normal
Future	☐ Improving
Business	☐ Stationary
Conditions	☐ Declining

One month's returns on this inquiry showed the number of replies to be divided in their answers by percentages as follows:

Above normal	29.03% of the replies
Below normal	38.72% of the replies
Normal	32.25% of the replies
Total replies	100.00%
Improving	61.40% of the replies
Stationary	33.33% of the replies
Declining	5.27% of the replies
Total replies	100.00%

When these slips were first sent out, a letter accompanied them requesting the recipient to indicate his opinion of business conditions. This letter explained that the slips would be issued monthly and the results classified and tabulated. The bank promised also that any of the business men who cooperated would have the benefit of the bank's opinion on general

business conditions not only in the community but throughout the country. Naturally the men were eager to give their assistance, since they found here an opportunity to determine definitely just how business was moving, especially in their immediate sphere.

"In 1907 the banks became alarmed at the imminent depression and there was a general call on loans," says this banker. "The result was that money tightened up and the panic followed. Now, if the banks had not become frightened, it is doubtful if there would have been such havoc in the market. It is interesting to compare 1907 with the conditions in 1912 and 1913. In those later years the business situation was fundamentally worse than in 1907, yet the banks were not alarmed and, therefore, they were able to tide over what easily might have been a repetition of the 1907 affair. This, it seems to me, goes to show that often a panic is more directly the result of a psychological condition rather than the result of actual facts. Thus, by using these simple slips which cost less than \$100 a year including postage, we are able to learn what the business men are thinking. By finding out their condition of mind, it follows that we can satisfactorily gage the safety of our loans."

The slips received each month are tabulated on a large sheet which is ruled off to embrace all the months of the year. Thus at the end of the year the bank has a bird's-eye view of the rise and fall in business conditions as interpreted by their customers. It is worth noting that plurality of opinions given under this simple plan has shown the tendencies of business and market conditions from 30 to 60 days ahead of the large agencies which conduct national surveys in a similar manner.

This is one of many inexpensive plans that the enterprising bank credit manager employs to establish a sound promise upon which to make loans. A careful

reading of the newspapers and the trade journals offer another effective medium for keeping a line on trade.

"I aim to spend at least an hour each afternoon going over the newspapers and magazines," says the credit man of one bank which has built up a file of more than 35,000 names. "Display advertisements are sometimes just as valuable as important news items. Not long ago a new mercantile concern started business and used a great deal of advertising space in announcing the opening. I clipped each of these advertisements and studied them because they appeared to reveal the policy which the house was shaping. Within a week I began to receive inquiries about this concern. I sent an inquiry to the commercial agencies, but the data which they supplied was superficial. Then I turned to my files and with the advertising copy as a starting point, I prepared my own list of questions, which enabled me to approach the owners of the business in a definite way. Within two hours I had all the information I wanted."

ARE YOUR CREDIT FILES UP TO THE MINUTE? PERHAPS
THIS EASILY ADAPTABLE METHOD WILL HELP YOU

This credit man clips all items relating to court judgments and other litigations which have a bearing on the customer's files. In the same way he examines daily the quotations of the provision market, of the hide and leather market, and so on, and notes any sharp changes for consideration on the following day.

It is almost impossible for any one bank credit man to master all the details of all the markets. In many banks this is not necessary. But in some of the large banks specialized knowledge of the different lines is essential and the lending officers therefore have charge of separate divisions of the business. This important feature of bank organization is treated more fully in the volume of this series on executive control.

In the majority of banks, either the president, the vice-president, or the cashier may be its lending or credit officer. Possibly two or all of them may have the authority to pass on loans. Before the credit department was developed to its present high standard, it was usually the custom for the lending officer to look up the borrower's rating in a commercial agency report, make such other investigation as he considered necessary, and take action on the strength of his judgment of the application. The credit department now takes over the details of the investigation, systematizes the records, provides quick reference to such records as described in Chapter XIV, and gives the lending officer the assistance of the credit manager's judgment.

With this fund of information in the hands of the manager of the credit department, backed by his experience along this particular line, his reports obviously are of the utmost value. While he has no authority to pass upon loans, the lending officer relies to a great extent upon him.

While the financial standing of a depositor is of no interest to a bank until the depositor becomes a borrower, yet there is always the possibility that a depositor may desire to obtain a loan and it is important that such information be at hand so as to permit prompt action when the request is made. That is why every important fact regarding markets and business in general should be at hand when needed.

The depositor who obtains a line of credit and who avails himself of this is expected to supply the credit manager with frequent financial statements (Chapter VI), showing the condition of his business and personal affairs. Their figures compared with the fund of market information serves to advise the bank of the trend of the borrower's business.

The statements are epitomized on a blank which is specially prepared for the purpose and which provides

for a ready comparison of these statements from year to year. The record cards of customers also help the credit manager to compare the conditions of borrowers in contrast to the general market. If a business shows smaller sales when the general community is prospering, the banker can immediately get busy and find out the reason.

As time passes the record cards (Figures 45 and 46) of customers become more and more valuable as a source of reference. In the course of a year or more such records become a very accurate guide to a depositor's trustworthiness and to his ability to adjust himself and his business to general changing financial conditions.

The magnitude of this country's financial operations is best exemplified by the increasing amount of commercial paper bought and sold in the open market. Vast business enterprises, or individuals carrying on large financial transactions, require immense sums of ready money. To facilitate securing these loans, concerns issue negotiable 30-, 60- or 90-day notes and sell this commercial paper to the banks through brokerage firms which make this branch of finance their business. It is now the generally accepted policy of bankers to buy all such commercial paper from the brokers. Keeping in touch with the commercial paper market is of considerable help to bankers in watching the general trend of the market. The activity of commercial paper acts somewhat as a barometer for general financial conditions.

For example, a large manufacturing or public service corporation might desire the quick use of \$500,000 cash. No bank could lend such an amount of money to an individual, firm, or corporation, because of the limit provided by law, prohibiting a bank from lending to one borrower an amount in excess of 10% of the bank's total capital and surplus. If the borrower

attempted to negotiate the loan directly there might be considerable delay before he could obtain the money from several banks. He therefore issues a series of negotiable notes and places the entire issue in the hands of a brokerage firm to sell. This activity of one firm and the interest rate it expects to pay reflects somewhat the state of the market.

Note brokers daily notify all the banks on their list of any paper which they have to sell, and have no difficulty in disposing of the desirable paper which they wish to market, a large loan thus being distributed among perhaps 20 different banks.

It is the duty of the credit department of a bank to make reports regarding the safety of such loans. All paper of this sort is purchased from the brokers on a 10-day option as described in Chapter VI of the volume on loans and discounts. The lending officer advises the credit manager of every contemplated purchase of commercial paper. The credit manager, in turn, with his mass of market and other information, sizes up the paper and makes his report. If he has insufficient information on any particular piece he appeals to the broker for a financial statement and for references. These the broker promptly supplies and they form an additional basis for the credit man's report to the lending officer.

All the available information obtainable from the source is entered on a record card especially prepared for this purpose (Figure 47) and each firm or individual whose paper is taken by the bank is accorded a folder in the file devoted to this class of loans. These records are preserved and form, in connection with the market report records, a quick reference for future use when loans from the same concerns are again considered.

The bank credit manager must be in a position to furnish to his colleagues any information regarding the value of stocks, bonds, and securities of all kinds.

Figures 45 and 46: The upper card shows a customer's average bank balance by the month while the other contains a history of his financial condition, making possible the various yearly comparisons.

Figure 47: When investigating commercial or negotiable paper offered by brokers in the open market, one bank finds the above compact form practical for listing a summary of the results obtained.

This requires a personal knowledge of current market values, close touch with the financial world, and a fund of special information filed away for ready reference.

And not only does he serve his own bank, but he is ready at all times to pass on his information to other financial institutions. This is more or less an exchange of courtesy between the banking houses and not infrequently the credit managers of the two banks will compare the information they have obtained on a concern through their separate investigations. The credit man of the city bank is also called upon by the country bank correspondents to check over lists of commercial paper which they are offered, thus practically giving the advice of the bank as to the safety of such investments.

It is thus apparent that the general task of keeping in touch with and recording market reports and information covers a fairly wide range of activities. It would be impossible to go into all the details of so comprehensive and diversified a subject in one chapter, because of the greatly differing make-up financially of various communities. Many banks in small towns and cities have no need for the elaborate system of watching and filing market information often deemed necessary in the large financial centers.

This chapter, therefore, should be considered suggestive of the importance to every banker of knowing the trend of the market so far as the welfare of his institution and of his customers is concerned, rather than as pointing out specific methods, except in a general way, for accomplishing the desired results. Above all, it is essential to keep in mind the value of market information to safeguard the bank's interests and to gather it and file it in a practical way. The influence of such activity will have considerable bearing on the profits of any bank, whether it is located in city or country.

CHAPTER XIII

EXCHANGING CREDIT INFORMATION

WHEN a bank has exhausted its own immediate channels for obtaining credit information, it still has other sources from which to obtain corroborative reports as set forth in Chapter V. The accepting of this service, however, implies the obligation of giving in return, when requested, information to other banks, business houses, and commercial agencies. As a result, a reciprocal interchange of credit findings has developed to help banks solve their lending problems.

At the same time, too, this exchange of confidence has brought with it all sorts of requests which either must be ignored, acknowledged, or answered in full. Banks probably more than any other financial agency are bombarded with credit inquiries. Many a credit man in business probably looks upon banks as a cynosure in this regard, whether he is usually successful in obtaining valuable information or not.

Considered from all standpoints, then, how is the bank going to get information, exchange it, and give it to others, and still maintain a proper balance between service, expense, and profits? In other words—

How can the bank handle interchange of information at minimum cost?

How can it give the proper credit service necessary to raise the general standard of credit risks and yet not be imposed upon?

First let us consider the routine and methods found useful by banks for exchanging credit facts.

A Minneapolis bank finds it profitable to exchange information, not only with other banks in the usual friendly way, but also with manufacturers and jobbers. In its offering books the credit manager tries to include the statements of suppliers regarding borrowing customers as additional corroborative facts. In return the bank is willing without betraying confidence to furnish similar reports to those whose services it has enjoyed. The credit manager does not use form letters to make inquiries of this sort. He writes a personal letter to one of the officers and explains just what he wants to know. It takes a little longer but the results are worth far more in the long run. He has proved to his own satisfaction that credit facts worth having are worth his personal attention.

In fact, not only does this credit manager save in the long run on postage and stationery formerly lost by sending out form letters which never were answered, but he saves hours of time from day to day by getting more information and getting it quicker. His credit files are thus more complete than they have ever been and he is practically on personal terms with innumerable sources of credit data.

Investigation shows that this is the experience of many other banks. Personal letters, therefore, apparently are most useful for certain types of inquiries where a profitable personal relationship is established and where a practicable interchange of information is possible. The cost, considering the results obtained, is slight.

What annoys many banks, however, more than anything else along this line is the bombardment they are subjected to from many sources calling for information. This is a problem that has puzzled almost all banks alike. John Harris, a clothing merchant, 20

THE CITIZENS BANK

ANDERSON, INDIANA

Submits the following information in *strict confidence* in reply to your inquiry.

All persons are informed that any statement on the part of this Bank or any of its officers as to the responsibility or standing of any person, firm or corporation, is a mere matter of opinion, and given as such, and solely as a matter of courtesy, and for which no responsibility, in any way, is to attach to this Bank or any of its officers.

Our reply is the paragraph checked below.

☐

We regard the party inquired for favorably and think you are safe in extending any reasonable credit. They are reported to care for their obligations promptly and in a satisfactory manner, and to be in good standing in every way.

.....

.....

☐

The party inquired for is limited as to means but enjoys a good reputation and takes good care of obligations, so far as we have ever heard. No complaints of any kind have reached us.

☐

Our knowledge of the party inquired for is too limited to make our report of any value to you.

☐

The party is unknown to us.

☐

We prefer not to make a report of any kind upon this party.

Figure 48: The problem of handling satisfactorily all inquiries from various sources asking for credit information has puzzled most bankers. An Indiana banker uses this form letter which serves the purpose in all respects. It furnishes a courteous reply and requires no writing.

miles away, writes to know if Henry Peterson has any money on deposit and how much. Kenyon and Company, a concern the credit manager has never heard of, sends a form letter asking if Peter Nolan is good for a purchase amounting to \$500. Is it good judgment or ethical to throw these letters into the waste basket? Yet the bank must make a profit and its employees cannot spend all their time answering inquiries without some sort of compensation, even if it is only reciprocal service of intangible sort.

HOW AN INDIANA BANKER HANDLES THE "INQUIRY NUISANCE"
WITH SATISFACTION TO ALL CONCERNED

Here is one serious problem for the credit manager. If he realizes the broader elements of the proposition he will see that it can hardly be solved satisfactorily by ignoring this phase of it. And yet, even the postage involved in answering so many letters, even while declining to vouchsafe much of the information wanted on the ground that it would be betraying the confidence of his depositors, is quite an item to be charged against the credit manager.

N. M. McCullough, president of the Citizens Bank of Anderson, Indiana, has greatly minimized what usually is termed the "inquiry nuisance" by using a special form for replies to all requests from concerns with which the bank has no dealings. This form, which has been so effective in its results, is shown in Figure 48. Mr. McCullough worked out the slip from his own experience in a smaller city bank. It has saved much time for him and for his employees who handle credit information, and settles to his satisfaction this difficult problem of the country banker.

Providing the bank has the data and sees no reason for withholding it, the credit officer or an assistant can fill in the form quickly and slip it in the return envelop for mailing. Notice how simple and short, yet clear

and complete, each answer is. The first answer has extra lines for any additional data the bank may see fit to give. Otherwise no writing of any sort is necessary. Only the square covering the correct reply is checked. Many banks probably would find a slip of this sort worth using to cut down clerical costs, for which often there is no compensating return. Besides it furnishes a courteous method of reply and, as has been the experience of the Indiana bank, it would sometimes mean obtaining reciprocal help from other banks or concerns.

The credit officer of the Citizens State Bank of Jewell, Kansas, similarly has met the problem satisfactorily by using a form like that reproduced in Figure 49. He answers so far as he is able each bona fide inquiry received and attaches this notice. The friendly and yet forceful character of the request for the 25-cent fee usually brings the stamps by return mail. Not always, of course, but the percentage is large enough to cover the expense involved. And it is much more satisfactory to the bank officers to feel that they are cooperating to make credits generally more safe. Broad-minded inquirers appreciate the service and willingly pay the fee. "Spongers" rarely ask again for free information.

A New York banker says: "Our inquiries are largely from manufacturers, jobbers, and metropolitan retail merchants selling household goods. We are not bothered a great deal, however, so we do not feel the privilege is abused. Of course, we do have some inquiries from all over the country asking about people we never heard about or dealt with. We do not take the time to write any letter in response to these requests. We simply indorse on their inquiry: 'Has no account and we are not acquainted.' Usually stamps or stamped return envelopes accompany the inquiries, so we have little expense, and yet we are

Citizens State Bank

CAPITAL \$50,000.00

JEWELL, KANSAS _____ 191__

GENTLEMEN:

We return herewith the credit statement for which you ask, and trust it gives you the desired information.

Feeling that this report will be of value to you, and inasmuch as it cannot be made without expense on our part, we have established a minimum charge of 25 cents for this service, and ask that you send us stamps for this amount.

CITIZENS STATE BANK

By _____

Figure 49: One bank solved the problem of making a reasonable charge for credit information by using this form letter. The large number of inquirers who willingly complied with the request made demonstrates that most business men are ready to pay for this service.

extending to the general field the courtesy of a reply to each letter we receive."

Obviously, banks in certain localities will have far more inquiries to dispose of than those in others, depending, of course, on general credit conditions, the purchasing power of the community, the type of industrial or farming development, and so on. A definite standard for handling inquiries, however, has proved valuable in a number of banks.

A greater freedom of expression and of cooperation between banks and credit men is also helping to meet this situation adequately. To show the necessity of formulating a definite way of handling inquiries, let us consider briefly an analysis of 84 inquiries which William Tonks, credit manager of the First National Bank of Cleveland received in a single day. He grouped them as follows:

I. Twenty-four inquiries were on our depositors—10 being borrowers—7 from bankers.

II. Thirty-three inquiries were on depositors in other institutions—14 (estimated) are borrowers—9 from bankers.

III. Nineteen were inquiries from bankers on brokers' paper.

IV. Eight miscellaneous inquiries were relative to stocks, bonds, banks, and so on.

An analysis of groups of the 57 letters of classifications I and II showed that—

38 were form letters.

12 gave the street address of the subject of the inquiry.

9 gave the nature of the business of the subject of the inquiry.

5 gave the amount of the order or the reason the inquiry was being made.

3 did not enclose a stamped return envelop.

21 said they would treat the information confidentially.

9 were from trade agencies which sell the information to their clients and do not offer to reciprocate except at a price.

"We ascertained," says Mr. Tonks, "that at least eight made the same inquiries of other banks in this city, but did not mention the fact. They call this sending out 'feelers.' Two gave credit information of value to the banker, one stating his ledger experience and the other giving important figures as well as trade opinions. Therefore, two only out of the total had the essentials in their letters of inquiry."

This resume indicates the difficulty that many banks encounter in handling this problem. Mr. Tonk further says of banks in general:

"Daily they are called upon for credit data, when the rule of the bank is not to divulge information relative to a balance or even acknowledge the fact that a savings account is carried by the subject of the inquiry. Is any bank to be criticised if it cannot give satisfactory information relative to a small commercial depositor who does not borrow, has no line of credit, and has presented no statement? Is he not just as much a cash customer of the bank as he is of any business concern to which he pays cash for goods purchased? In fact, true credit references are creditors or those in a position to be acquainted with the probable net worth, the income, or the habit of pay of the subject. I have always admired the business sagacity of the man who files a property statement where his commercial account is maintained—who, even when not borrowing, establishes a line of credit, and asks his banker to verify these facts to those entitled to the information. In the absence of such keen foresight on the part of his client, the banker is the one to determine whether the information is personal or confidential, and whether it may be divulged. Perhaps the majority of credit men could correct some of their old habits and obtain better results."

Mr. Tonks emphasizes the thought that bankers should not be called upon to answer hit-or-miss

inquiries that do not conform to the rules laid down by the National Association of Credit Men at their meeting in 1915. These rules are:

- 1. The blank approved and adopted by the National Association of Credit Men for the making of inquiries shall be used.**
- 2. The blank shall always indicate the nature of the business in which the subject is engaged.**
- 3. Each inquiry shall state the amount of the order which leads to making the inquiry, and in addition indicate if it is a first order.**
- 4. If the inquirer has had previous experience with the one inquired about, then the inquiry shall be accompanied by a statement of such experience, thus encouraging that reciprocal interchange of experience without which the inquiry becomes unfair.**
- 5. Inquiries are not to be made except on orders actually in hand or on an open account.**
- 6. Inquiries shall be made only through properly constituted credit departments—inquiries by salesmen shall not be permitted.**
- 7. It is essential that there shall be no promiscuous inquiries sent out with the idea of determining what concerns have had experience with the subject of the inquiry, for promiscuous inquiries may do harm to the customer and impose unnecessary burdens upon the credit department.**
- 8. All inquiries are to be answered on the day received and by the credit man or manager if possible, so that not only ledger experience may be supplied, but any additional valuable information in the possession of the informant.**

The Robert Morris Club, composed of bank credit men, has adopted these rules for handling inquiries:

- 1. The first and cardinal principle of credit investigation is the sacredness of the replies, and any violation of this principle places the violator beyond the pale of consideration of the honest credit man.**
- 2. Every letter of inquiry should indicate in some definite and conspicuous manner the object of that inquiry.**
- 3. When more than one inquiry on the same subject is simultaneously sent to the banks in the same city, the fact should be plainly set forth in the inquiries.**
- 4. Individual consideration by the recipient of a credit inquiry of distinguishing marks therein will increase the efficiency of credit investigation.**

5. Indiscriminate revision of files regardless of the presence of the note in the market is unnecessary, wasteful and undesirable.

6. The continued observance of high ethical principles in the conduct of the credit departments of banks and banking institutions insures the best results and cooperation in safeguarding banking credits.

7. It is not permissible nor the part of good faith in soliciting accounts from competitor to seek information from the competitor without frankly stating the object of the inquiry.

8. In answering, the source of the information should not be disclosed without permission and letters written in answer to inquiries should be held inviolable by the recipients.

9. In seeking information the name of the inquirer in whose behalf the reference is made should not be disclosed without permission.

10. In answering inquiries it is advisable to disclose all material facts bearing on the credit of the borrower to the end that the paper offered in the open market be of the same description as that held by the borrower's own bank.

Behind these rules, at the time they were passed, were 219 banks. Other financial institutions have found this "creed" to be of much benefit, for it indicates the standards bank credit officers expect in others who seek credit information.

Some banks have adopted a notice slip which they return with inquiries incorrect in form. The purpose of these slips is gradually to educate inquirers to a better sense of credit interchange. This slip is illustrated in Figure 50.

Mr. Tonks, who has studied this question for several years, emphasizes the fact that credit managers should be careful to discourage any practice that is likely to interfere with a liberal interchange of credit information. Even though it may mean temporary loss of time he feels that all credit men should take a firm stand for the principles of reciprocity.

He also outlines what he believes is a model inquiry letter to be received by banks. No doubt many bankers all over the country can help raise the standard of

interchange by impressing these ideas on their customers, their correspondents, and inquirers in general. The outline follows:

1. Use no form letter, especially in addressing city bankers who dictate replies and retain copies conforming to their own office

This inquiry is improper in form and does not conform to the rules of reciprocity adopted by the

NATIONAL ASSOCIATION OF CREDIT MEN

We are therefore returning it herewith for correction and would call your attention to the reasons checked below.

We will gladly answer all inquiries made in the correct form.

1. No stamped return envelop. _____
2. Your experience. _____
3. Amount of first order. _____

Signed _____

Figure 50: In order to raise the standard of interchanging credit facts, some banks return all requests made in incorrect form. By attaching this slip the desired result is obtained without offending.

system. If the office boy or typist makes your inquiries, which means seeking important information with as little effort as possible, just how much attention are you entitled to receive from the banker?

2. When possible, direct your letter to the credit man, using the classified trade directory of membership issued by the national association.

3. Give the full name or title, correctly spelled, of the firm, individual, or corporation, you desire to know about.

4. If in a city of any size, give the street address and business of the subject of the inquiry. If the credit man has no information in his files, he may know someone in the locality or in the trade who will give the data necessary for a suitable answer. The street address also identifies the subject of the inquiry and is a protection against the fraudulent use of mercantile ratings, a trick often

worked with an unsolicited first order and possible because the mercantile agencies do not give street addresses.

5. If a first order, give the amount of credit sought. If an old customer, give at least your ledger experience. While the subject may be entitled to a credit of \$100, the banker might know that \$5,000 would be excessive.

6. State why you are making the inquiry or what experience prompted your questions. If you are simply checking one's reputation for honesty—the moral risk—so state. If there has been any change in methods of pay, or you have had any favorable or unfavorable experience, do not fail to mention the fact. Confidence begets confidence. You should know that the bank credit man is seeking information, that he must build up his own files, that he is handicapped in many towns and cities from the lack of ledger interchange. Letter after letter—and the bankers themselves are just as guilty as the mercantile credit men—are written in the old grind form, “regarding the financial responsibility, business ability and character,” when probably all the information desired is “why is the customer becoming slower?” or, “is he worthy of a credit of \$100?” and so on. Careless inquiries bring careless replies or none at all.

7. Assure the banker that you will hold the answer exclusively for your own files and mean it to the extent of religiously enforcing this rule in your own credit office. If you are seeking legitimate information for another, at least hold sacred the source of your information, particularly if adverse in nature. If you lend yourself to making inquiries not intended for your own use, but to disguise the source of inquiry, don't be surprised if many credit men hear of this injury you have done to a system that has taken years of education to establish.

8. If you have met the credit man at a convention, mention the fact, or in other ways give a personal and intimate touch to your letter. Personal acquaintanceship often brings the “extra ounce” of information you are seeking.

9. Enclose a stamped return envelop.

“Credit is indispensable,” concludes Mr. Tonks, “and in whatever form it may be given, the banker is ultimately interested; therefore, he must encourage sound credits as much as possible, which he cannot do by discouraging legitimate methods of acquiring credit data. He may gain pennies by charging for his ser-

vices in answering inquiries, but he is not contributing his share to the cause of sound credits and the abridgment of the bad-debt waste. This attitude appears short-sighted in serious times when all credit men must work together. In times of peace, as well as when war conditions must be met, any experienced bank credit man knows the value of ledger information or trade opinions in anticipating the many things that may happen between statement periods.

"In this respect my opinion is that the mercantile credit man is just as much entitled to compensation for his opinions or experience. The proper and practical attitude for the banker to adopt is to return under the inquirer's own postage every letter of inquiry that does not conform to the rules established by credit men, and enclose a printed slip similar to the one described on page 181, but which will take little more time than throwing it into the waste basket. In this problem the banker should take his place as an educator as well as a leader in good business practices."

To sum up, then, standardized methods for interchanging and answering credit information mean the improvement of the general credit structure which in turn means better banking and fewer credit losses.

CHAPTER XIV

FILING METHODS THAT SPEED UP THE WORK

SAFE credits depend to a great extent on the way the records of the credit department are kept. Careful filing has much to do with the satisfactory disposition of the day's business, while adequate equipment for handling the routine helps to save time and further the success of the bank.

In Chapter I were considered phases of filing and handling credit information, but investigation indicates the importance of considering these subjects more specifically. Many small banks, especially, may find it possible to do much toward perfecting their credit routine by making their files do more and better work.

Perfection of the filing routine in a middle-western bank enabled the officers to keep such accurate track of their credit folders that they only lost trace of one out of several hundred during a period covering eight years. Even then, cross-index reference cards of the customer's history still gave the credit department practically all the information necessary. Considering the size of the list of customers this unquestionably is a good showing, made possible by the arrangement and method of filing the records.

This bank files all the information for each customer in letter-size folders which it keeps in steel files just a few feet to the left of the credit manager, who has a clerk and a stenographer to assist him. The folders have tabs on top for the names of customers and are filed alphabetically. Different tiers hold ordinary

commercial loans, commercial paper loans, and collateral loans. For each classification, the folders bear a distinguishing mark. The folders holding commercial paper loans, for example, have pasted in their upper left-hand corner a blue paper star (Figure 51). The containers for ordinary commercial loans are unmarked, while collateral folders carry a red star.

The use of insignia like this means the saving of countless hours in filing during the course of a year. many of these folders are out to various offices during the day. At night most of them are returned to the credit department, to be filed. Temporarily, they are placed on top of the files just as they are received. When the girl comes to file them, she knows at a glance into what tier of files each folder should go. The colored stars or the plain container tell her instantly where to put each one. She simply glances at the name to maintain the alphabetical arrangement. Guiding signals of this sort have also minimized delays in finding folders desired quickly. As a matter of fact, such a plan in either a small or large bank should help to save time. It could be modified, of course, to meet individual requirements.

Supplementary to the folders, which contain the references regarding customers, financial statements and other data, this bank keeps auxiliary records including a summary of each borrower's activities (Figure 52). This card is of unusual interest because on its reverse side are entered the figures for the average balances by quarters. The use of key letters as indicated shows the character of the account from year to year. The front has the usual spaces for entering the name and other data. One line, however, is worth calling attention to. It reads, "references in vertical file." This draws direct attention to the folder for the same customer and indicates briefly the character of the references obtained regarding him.

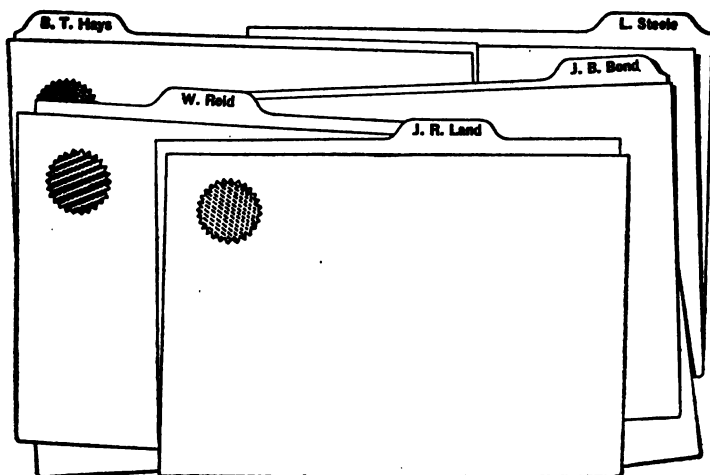


Figure 51: Credit information on various types of loans is filed in folders like these in the credit department of one bank, the class of paper being indicated by different colored stars, as shown, for filing.

STATISTICAL AND CREDIT DEPARTMENT

RECEIVED the following files, or record cards,
for _____

By _____

Dated _____

Figure 53: The unwelcome answer, "I don't know where it is," is seldom heard in the credit department which uses this receipt form for folders. No official can take out a folder without signing a receipt.

AVERAGE BALANCES								
A-Active Account			I-Inactive Account			S-Steady Balance		
			F-Fluctuating Balance			O-Sometimes Overdrawn		
Date	Balance	Character	Date	Balance	Character	Date	Balance	Character
1st Q. 1914			1st Q. 1917			1st Q. 1920		
2nd Q. 1914			2nd Q. 1917			2nd Q. 1920		
3rd Q. 1914			3rd Q. 1917			3rd Q. 1920		
4th Q. 1914			4th Q. 1917			4th Q. 1920		
1st Q. 1915			1st Q. 1918			1st Q. 1921		
2nd Q. 1915			2nd Q. 1918			2nd Q. 1921		
3rd Q. 1915			3rd Q. 1918			3rd Q. 1921		
4th Q. 1915			4th Q. 1918			4th Q. 1921		
1st Q. 1916			1st Q. 1919			1st Q. 1922		
2nd Q. 1916			2nd Q. 1919			2nd Q. 1922		
3rd Q. 1916			3rd Q. 1919			3rd Q. 1922		
4th Q. 1916			4th Q. 1919			4th Q. 1922		
Remarks								
Cks. Ret'd. Acc't. N. S. F.								

Business		
References		
Connections		
Account Opened	Closed	Reason
Reopened	Closed	Reason
Reopened	Closed	Reason
References in Vertical File		
Power of Attorney to	Number	
Special Instructions, Terms and so forth		
Remarks:		

Figure 52: In connection with a file of folders covering facts about customers, one bank uses this additional card record. Note the reference to the folder in the vertical file. The reverse shows balances by quarters, and keys the character of the business by letters.

These cards, also, are filed alphabetically and furnish a valuable cross-index record.

How to keep track of folders that go out to officers is a problem in many banks. The Northern Trust Company, of Chicago, which has a file arrangement similar to that described, has met the need successfully by using the two slips reproduced in Figures 53 and 54. Whenever an officer wants a folder or any record from the credit files, he or the interhouse messenger is asked to sign the receipt (Figure 53) which describes briefly the items taken. This slip the credit manager files temporarily on a spindle on his desk. He expects, of course, to receive the papers back at the close of the day. If they are returned he simply destroys the slip. If, however, the officer is not through with the data, a notation is made on the form when the material may be expected back.

The credit manager clips to each item taken out of the department the notice slip (Figure 54), and it serves as a danger signal to insure the prompt return of all documents. Even if a bank has few records comparatively, ideas like this for keeping careful tab on them are not only worth while, but under present-day competition are practically necessary.

AN INEXPENSIVE WAY OF DISTRIBUTING CREDIT
INFORMATION WITHOUT UNNECESSARY COPYING

To save further time and annoyance, this bank has adopted another scheme to perfect its files. Often, as in other banks, the credit manager receives a letter from another bank giving credit information on two or three or perhaps more concerns. Until inaugurating this plan it was necessary to make several partial copies of the letter to segregate the different paragraphs for each folder concerned. Now, however, the typist, following notations by the credit manager, simply cuts the letter up into the necessary parts to cover the

information on each name. She pastes each slip on a blank sheet and adds the name of the bank, the name of the officer who has signed the letter, and also in the lower left-hand corner the names of each of the other

NOTICE

This file is charged to your department and must be returned to the statistical and credit department.

Under no circumstances are these papers to be delivered to any other department.

Figure 54: One trust company has proved the value of the old adage, "An ounce of prevention is worth a pound of cure," by using with good results the form shown above for keeping a check on its credit folders.

applicants for credit mentioned in the letter. Thus an adequate record is ready for each name. Each sheet can be filed in its proper folder. If at any time the credit manager should for some reason desire to put the original letter together the list of names in the lower left-hand corner of any of the sheets will enable him to collect the "pieces" in short order.

This is just suggestive of the numerous plans any bank can use to insure careful and adequate filing.

How necessary it is for bankers to realize the importance of having complete credit files is indicated by the statement of the cashier of a western bank which is capitalized at \$50,000.

"Our work in the insurance department," he says, "enables us to keep in close personal touch with our customers and friends in the country. In consequence we have not found it necessary to keep an extensive credit file. However, I believe such a thing would be of value in case of accident to either the president or myself which would require new managing officers."

The statement just given probably describes pretty accurately the conditions in many banks of this nation, and the lack of written dependable records is not alone attributable to small banks. However, country bankers need the best possible filing systems and records because the cost to them of investigations and inquiries is often greater proportionately than to city bankers. Obviously, with present-day competition there should be no hit-or-miss handling of credits. The personal judgment of one or two officers cannot always remain with a bank. Black and white facts are absolutely essential, even if they are only in the crude form of memoranda.

One small western banker provided a simple but invaluable record of credits for his successor by entering on blank sheets all the information he found available regarding each borrower. These sheets had the names of his customers at the top and were filed alphabetically in a looseleaf binder. Additional information could be added at any time. Here is a sample page of information listed in this way and it illustrates the value of transferring office-in-the-hat information to a permanent record:

George White, R. R. 3, Burnside. June 10, 1910. Renter of an 80-acre farm owned by Dan Waters, located in the southern part of Jackson Township, six miles northwest of town; is feeding 20 head of steers that are not ready for sale, and wants to borrow \$100 to buy feed. He promises to do all his business with us as soon as cattle are sold. His statement shows no real estate, and about \$2,000 net, in personal property. After careful consideration we let him have the money.

June 15, 1910. Saw Dan Waters today. He says White is an excellent tenant, thrifty, good habits.

July 5, 1910. Met cashier of Jamesport Bank, who spoke well of White and says he is all right in a small way.

September 20, 1910. Records show that White bought 60 acres in Jackson township, paying \$1,000 cash and giving deed of trust for balance of \$2,500. He made money on cattle recently sold; is a good trader.

January 25, 1911. He is going to buy a bunch of yearlings and we have agreed to lend him the purchase price to be secured by chattel mortgage.

October 10, 1914. Records show White has paid off deed of trust on his 60 acres. He also buys 100 acres adjoining, giving deed of trust on whole 160 acres for the purchase price, \$6,500. Learn he is making money fast and will work his own farm in future, renting only when he needs pasture.

February 14, 1915. Records show he bought 45 head of steers in Kansas City and gave chattel to commission firm in that city for purchase price.

April 18, 1915. Took his statement today, showing net worth of \$8,500; says he made above cattle loan because he could get money cheaper that way. Offered to lend him as high as \$1,000 at any time on his own name at 7%.

November 20, 1917. Lately have seen his checks drawn on Farmers Bank. Asked him about it today and he said it is only a temporary deposit made at urgent solicitation of their cashier.

March 18, 1918. Learned that he recently bought half section of Kansas land, which he sold at slight loss after thinking matter over.

July 1, 1918. Loaned him \$2,500 with his wife signing the note. This is part purchase price for 80 acres of bottom land adjoining his 160 that he now owns clear. Consider him worth conservatively \$15,000. Takes good care of his paper and does all his business with us. Tried to induce him to buy five shares of our stock. He says he will think it over.

A record like this would be of great help should a change of officers take place. Ordinarily if credit files are complete, there would be additional information in actual figures to show specifically in black and white the worth of the borrower. But, at least some record is desirable.

Banks which use folders often have a definite order in which they file information. This enables the credit manager or any officer to tell instantly just where in the material clipped together he will find the particular item of information he wants.

HERE'S A SIMPLE WAY OF FILING INFORMATION THAT
SAVES TIME WHEN YOU WANT THE FACTS QUICKLY

For instance, one bank puts the material for each folder together in this fashion: on top is the offering slip giving the details of the loan and whether or not it is approved; then comes the concern's or individual's last statement, below which are the letters from the applicant's home or original bank or banks; next follow letters from outside banks; then trade letters, agency reports, and finally old and comparative statements. The comparative statement sheet although at the bottom of the information, is turned right side out so that any officer looking at the material can see by turning the folder over just how the business has been going. An offering slip for commercial paper is shown in Figure 55. The general form is the same for other types of loans. Note the spaces in which the lending officers place their initials to register approval or disapproval of the loan. The space at the bottom is for the credit manager to make his notations, suggestions, or recommendations. On the back may be listed the references and the agency reports.

A number of banks, both small and large, find it desirable at times to purchase commercial paper. It is well to have concise and practical records both for the paper itself and for the list of brokers from whom it is purchased. One bank uses pink and white cards for this purpose. The pink cards are for listing the brokers' names and the paper purchased of them (Figure 56). The data entered on a card of this sort includes the date of purchase from each concern, the

REFERENCES				AGENCY REPORTS											
				BRADSTREET DUN HILL'S											
BOUGHT FROM _____ 191 ____ OPTION EXPIRES _____ 191 ____															
PRESENT PURCHASE		MATURITY			RATE	INDORSERS GUARANTORS OR COLLATERAL		OTHER MATURITIES ON HAND		MATURING			BALANCE ON HAND INCLUDING PRESENT PURCHASE		
NO.		DAY	YEAR							NO.		DAY	YEAR		
APPROVED BY				DISAPPROVED BY				REMARKS							
APPROVED BY				DISAPPROVED BY											

Figure 55: Here is shown the front and reverse of an offering slip which one bank uses for its commercial paper. As all the facts of interest to the officers are covered on the face of this form, with references on the reverse side, it can be adapted to any type of offering.

① Broker					Total Year Total Year		
Total Year							
Date of Purchase	Rate	Name	Amount	Due	Balance	Total	

② Broker							
Date of Purchase	Rate	Indorsed	Balance	Due	Amount	Due	Amount

Figures 56 and 57: These records are valuable to one banker for keeping a ready reference record of all commercial paper purchased. The advantage of this plan is described in detail on pages 192 and 196.

	NAME	BALANCE	CHECKS	CHECKS	CHECKS	CHECKS	TOTAL CHECKS	DESCRIPTION	CREDITS	CREDITS	TOTAL CREDITS
1	FIRST NATIONAL BANK KANSAS, MO.										
2											
3	SECURITY BANK AND TRUST CO. KANSAS, MO.										
4											
5	BANK OF KANSAS, MO.										
6											
7	WYOMING COUNTY BANK MO. MO.										
8											
9											
10											
11											
12											
13											
14											
15	BANK OF COMMERCE LITTLE ROCK, ARK.										
16	BANKING TRUST CO. LITTLE ROCK, ARK.										
17											
18											
19											
20											

Figure 59: This compact looseleaf form has been found especially effective by a Missouri bank for recording accounts of correspondent banks. Total checks and total credit figures show the balances on hand.

DATE _____

REPORT ON ACCOUNT

Name _____

Address _____

Account Opened _____

Highest Balance _____

Lowest Balance _____

Average Balance _____

Present Balance _____

Overdrawn _____

Active or Inactive _____

Checking Account _____ Yes _____ No _____ By _____

C/D Account _____ Yes _____ No _____ By _____

Discount or Collection _____ Yes _____ No _____ By _____

Trust Department _____ Yes _____ No _____ By _____

Real Estate Department _____ Yes _____ No _____ By _____

Savings Department _____ Yes _____ No _____ By _____

Bond Department _____ Yes _____ No _____ By _____

Vaults _____ Yes _____ No _____ By _____

Remarks _____

FOR _____

Figure 58: Believing that any depositor eventually may become a borrower, one bank finds it profitable to keep a record like this of each customer's account. This shows whether he is managing his finances in a businesslike way, as well as other important facts.

names of the concerns and the amount of paper accepted from each one. The amount of paper outstanding from each broker and, where practicable, the amount purchased to date are also entered. These cards are filed alphabetically in a steel case.

The white cards (Figure 57) form an alphabetical record of concerns from which commercial paper has been purchased. It acts as a cross-reference file for the brokers' index. At the top of the card the credit manager enters the name of the maker of the paper and just below the name of the broker from whom the notes have been obtained. In the balance column is placed the last figure of the amount of paper outstanding. Each card carries the rate of discount on each note. These records are of great help in compiling statistics for the officers and they also show the trend of this branch of credits.

With complete records like this it takes but little time to report to any officer, director, or other person entitled to the information, the exact condition of an account. For this purpose the credit department uses the form reproduced in Figure 58.

A bank which handles the accounts of correspondent banks must make further provision for filing the records of their activity and balances. A St. Louis bank finds a looseleaf ledger like that illustrated in Figure 59 adequate to list the balance, the checks, the credits, and the totals for each month.

Investigation indicates that banks are using steel files to a large extent for preserving credit records. Bankers who have them, uniformly agree that they have advantages far above their initial cost. A steel file makes a safe receptacle for cards and folders and it saves a great deal of time because it does not have to be kept in a vault. Bankers are rapidly disregarding the process of bringing all of these auxiliary credit records from the vault each morning and trundling

them back again at night. They are eliminating this confusion and loss of time by placing steel files permanently wherever they are required in the credit department. Thus the credit manager has quick access to them at all times. He can handle his work quicker and the clerical help does not have to wait for tools to work with. There are many types of files, of course, so it is not difficult for a bank, even though it is small, to choose the sizes and styles best suited to its requirements. Some banks consider certain auxiliary card records of insufficient value to file in steel cases, while others have a complete equipment of steel for the purpose.

F: F. Tillotson, assistant cashier of the Dime Savings Bank, of Detroit, says:

"In order to save all the time we can, we have all of our credit records as well as others so far as is possible in steel files or filing cases, which enables each worker to have at his elbow all the records he requires. This saves a lot of time formerly spent by employees in traveling back and forth to a safe or vault. Any papers we consider of sufficient importance to put in the vault at night, we have arranged in files on wheels so they can be easily run into the vault. In order to save the time of the officers who are up in the front of the bank, we have built an extra smaller vault near the officers' desks. In this vault we keep the collateral and other records regarding loans, which we have found we frequently have to refer to."

The arrangements of files vary greatly according to the size, the structure, and the organization of both small and large banks. The plans of other banks, therefore, can usually be considered only suggestive of how to equip and arrange the credit files of your bank.

One credit manager has all of his files directly behind his desk. They form a low partition behind which his stenographer and clerks have their desks.

The arrangement works out well for accomplishing without confusion the daily tasks.

Still another bank, which has developed statistical records, houses its credit and statistical departments together in a separate room away from the cages and routine departments. Here all of the credit files are kept in steel cases which are just to the right of the stenographer and behind the credit manager. This arrangement of the department affords every facility for handling work quickly.

A number of the larger banks have developed a statistical department for analyzing credits. Some smaller banks are going into this work, too. Usually the records are important enough to warrant the best of steel files. In fact, some banks have a central filing room specially protected from the possibility of fire or burglary, and in this room clerks file all important documents dealing with credits.

To sum up, bank credits, of course, are basic. The continued existence of a financial institution is dependent on how they are handled. Therefore no record is too trivial to be kept and filed correctly and safely. Consequently, too much thought cannot be given to this phase of banking. Obviously the bank with the credit records and files best suited to its progress and safety is the one, other conditions being equal, which will continue to prosper. And isn't this the fundamental aim of every bank?

PART IV

COLLECTION PLANS THAT CUT COSTS

CHAPTER XV

HOW A CLEARING HOUSE FOR COUNTRY ITEMS CAN HELP

BY establishing a "country clearing house," the Detroit Clearing House Association accomplished a threefold purpose. It eliminated a large volume of unnecessary expense in postage, cut out the duplication of effort in member books and helped also to wipe out a certain class of exchange charges. These charges had outgrown their original function of covering the expense of handling items and had become purely sources of profit.

Suppose, for example, that eight member banks received in a single day one check each for \$10 drawn against the same bank in a Michigan town. Each of these eight bankers would have to send a collection letter to this particular country bank and it in turn would have to reimburse the eight banks in the city. The country bank, let us say, might impose a minimum exchange charge of 10 cents for checks up to \$100. These eight \$10 checks, then, although their total would make less than \$100, would be subject to a total charge of 80 cents. A clearing house for country items combines the work in such a way that these excessive exchange charges are removed at one stroke. At the same time the transfer of funds is made with less expense and effort.

Reducing exchange charges in this way has not always met with favor from some country banks. It has been agreed that it curtails a certain legitimate

revenue. For instance, one small bank had upon its books 318 commercial accounts with an average balance of \$72, or \$24,196 in the aggregate. To offset the expense of carrying these small balances, it depended on the exchange item as a source of profit. This is probably typical of banks which persist in carrying the accounts of customers who do not maintain balances of sufficient size to repay the bank for the service furnished. This condition, probably more than any other, has hastened the adoption of the service charge and other methods of making accounts profitable, as described in the volume of this series on accounting and costs. With the losses on accounts covered, country banks, investigation indicates, see the advisability of minimizing exchange charges to customers as far as possible.

Therefore, the plan of the Detroit country clearing house offers many suggestions both to the country and to the city banker for handling exchanges satisfactorily. Even if some bankers are not entirely in accord with the ideas set forth, they may see ways to adopt them profitably. At any rate, the plan has helped in a large measure to cut down the labor and expense due to the constantly growing use of the personal check.

The manager of this clearing house is empowered to make arrangements for the reciprocal service with all of the banks in the territory. He acts in much the same way that he would were he the officer of an individual bank. In determining to what bank in a district the clearing house shall send items for collections, he estimates carefully the strength of the institution and the service it is able to offer. To advise country bankers of the plan, he sends out letters explaining the functions of the clearing houses and follows this up with a card (Figure 61) requesting from each bank the names of its correspondents, its officers, a schedule of its incoming and outgoing mails, its

DUE BILL	Detroit Clearing House Association	
	No. 99—COUNTRY CHECK DEPARTMENT—No. 99	
	Received from _____, Detroit, Mich., _____ cash items said to amount to \$ _____	
	This DUE BILL PAYABLE through the Clearing House at the regular exchange of clearings _____ or when remittance shall have been received. _____ Manager.	

Figure 60: This simple due bill is given to each bank depositing items with the clearing house, and is taken up as soon as the items are cleared.

		M A I L	Leave Detroit			
			Arrive			
			Leave			
			Arrive Detroit			
Exchange		President		Detroit Corr.		
Rate	Date	Vice-President				
		Cashier				
		Assistant Cashier				
		Capital	Surplus	Cash	Loans	Deposits

Figure 61: The Detroit Country Clearing House sends out to banks in its district slips like these which, when returned, act as a guide in determining what banks may be best suited to handle certain business.

exchange rate for charges on cash items, and the latest statement of its condition. When these cards are returned, they are alphabetically filed. Then a list of all the banks to which the clearing house has arranged to send items, and the exchange rate charged by each, is sent to all the banks which have become members of the clearing house. As additions or changes are made in the list, the members are informed.

HOW THE CLEARING HOUSE FACILITATES THE
ROUTINE OF HANDLING ITEMS

The management furnishes to each bank member a stamp to indorse its items to the clearing house, and for the clearing house. The various member banks are also provided with record sheets and foreign slips to facilitate the depositing of items to be cleared. Each foreign slip shows at the top the clearing house number of the bank indorsing the items, the date of the indorsement and the name of the bank and the town to which the items are to be sent. This information is repeated on a perforated stub and the amount of each item is entered on the body of the slip and then a total is made and carried to the stub. The foreign slips with the items attached are sorted into alphabetical order and a list of the totals is usually made on an adding machine. Then this list is indorsed by the member bank making the deposit. The items are wrapped in a package with the list on its face and delivered to the clearing house by messenger. A check or due bill (Figure 60) payable through the clearing house at a subsequent date, is issued to the member bank for the amount of the day's total deposit. The date these checks are clearable is fixed by the average time required to get the returns for the items from the districts covered by the country clearing house.

When each day's items are delivered at the clearing house by the bank messenger the stubs are detached

and filed. The receipt illustrated in Figure 60 is then handed to the bank messenger. An adding machine list is made of the totals shown on the slips and this is proved against the list accompanying the items. The amounts of the items are then distributed on a form called the lot sheet (Figure 63), after which the items are grouped in alphabetical order by towns. Another sorting groups the checks for the banks in each town. Thus when all the deposits are made and the sorting is finished, the items are listed in the country clearing house letters of transmittal (Figure 62). The total shown on the slips is transferred by adding machines to these letters and to stubs, which are detached and filed as the record of the transit charges against the country banks.

Each day a total is taken of all these stubs. If the work is correctly done, this total will prove against the total of all deposits made with the clearing house for that day. These totals are listed on a form like that shown in Figure 65. When the letters are paid, the accounts are credited by removing from the transit the corresponding stubs and drawing an order (Figure 64) in favor of the bank. All returns are made direct to the manager of the clearing house. Notification of all refused and protested items is given on a form like that shown in Figure 66. The fees charged on protested items are deducted and returned with the draft to cover the balance of the letter originally transmitted.

In handling the collection charges of Michigan banks on checks collected for Detroit banks, a simple form (Figure 67) is employed. A card record of this kind is kept for each country bank and each of the numbers across the top designates the member bank of the clearing house association. The exchange charges listed for the first five days of the month show how the consolidation of country business through the one office saves a large sum every year for the member

**DETROIT CLEARING HOUSE ASSOCIATION
DETROIT, MICH.**

Dear Sir:

Enclosed I beg to hand you checks as listed below, for the amount of which please remit by return mail by draft on your Detroit, New York or Chicago correspondent, payable to the order of the Manager of the Detroit Clearing House Association. Protest all unpaid items over \$10 unless otherwise instructed or bearing "No Protest" symbol. Wire non-payment of all items of \$500 or over to Detroit Bank indorsing them to the Clearing House.

Yours very truly

J. H. LANGDON, Assistant Manager

Figure 62: Here is an example of conciseness in transmittal letters. This advice goes with items for collection to correspondent banks.

LETTERS	LETTERS	DETROIT	DETROIT	NEW YORK	EXCHANGE	EXCHANGE
<u>MISCELLANEOUS</u> <u>CHICAGO</u> <u>BANK DEPARTMENT RECAPITULATION</u>						

Figure 63: To simplify the country clearing house routine, all items received from the local banks are distributed on a lot sheet like this which enables those in charge of this routine to handle at all quickly.

Figure 64: To pay its members for items collected from country banks, the clearing house uses this convenient credit memorandum.

Figure 65: Here is an interesting sheet. On it the country clearing house lists the totals of all items sent out each day to correspondent banks. The figures should prove up with the deposits for that day.

banks in the city. The figures here shown are typical of the usual run of business from month to month. Of the amounts shown, 12 are under 10 cents. Each of these items handled separately would have been subject to a minimum charge of 10 cents—a total of \$1.20. By clearing them through the country collection department, they cost only 55 cents.

When the items are sorted to determine the exchange charges, those collectable at par are transcribed to a simple yellow sheet, those at 5 cents a 100 to a pink sheet, and those at 10 cents to a white sheet. The totals are then listed on a small form (Figure 68) and sent to the member bank.

Since the country clearing house is represented as a member in the daily exchange at the regular clearing house, it distributes the returns and secures credit for all returned items. The members charge the country clearing house with all the checks or due bills which have been issued in place of the items deposited with the department for collection. Investigation shows that in some country clearing houses the estimated time required for getting the returns is so close to the actual time that the due bills, as they become payable, almost offset the returns. The small debit and credit balances that arise on account of there not being an exact offset, are carried over, by the bank which falls heir to them, until the following day. Sometimes, however, the amount due each member is figured daily.

In determining the costs of operation, all expenses are prorated monthly on the basis of the total business and the total number of items handled through the department for the month. The exchange charges, computed as already described, are assessed against the members at the close of the month and each member is thus charged with the actual cost of the items. These charges are taken from the letters as they are paid and are figured and totaled each day.

DETROIT CLEARING HOUSE ASSOCIATION COUNTRY CHECK DEPARTMENT

Item attached is returned for reason indicated by check mark.

Insufficient funds	Indorsement lacking	Not drawn on a bank
Post dated	Signature lacking	Clearing house does not handle
Incomplete	Signature unsatisfactory	Foreign item
No account	Indorsement unsatisfactory	
Payment stopped	Reason not given	

Figure 66: By stamping the date in the blank space and checking the reason, this notice advises a member bank why an item is returned.

	1	7	9	10	15	17	21	23	24	26	27		Total
1		04		13	07			01					25
2			16		03	06	11		05				41
3		13	02	09		12					08		39
4	12		14	10			03						39
5					21		05			06			32
6													
7													
8													
9													
10													
11													
12													
23													
24													
25													
26													
27													
28													
29													
30													
31													
	1	7	9	10	15	17	21	23	24	26	27		

Figure 67: To keep tab on all exchange charges of country banks for collecting items for Detroit banks, the country clearing house uses this time-saving record. The top numbers designate the member banks.

Thus, the country clearing house does not interfere with the individual arrangements of its members but provides a fair and equitable plan of collection which effects a great saving of time and money. Since it reduces exchange charges, speeds up the returns, and cuts every item of expense incidental to the handling of out-of-town checks, it performs a valuable function in an increasingly important field.

In Michigan, for example, where there are more than 500 towns and cities in which banks have been established the savings on postage alone is between \$10 and \$12 a day. Added to this is a corresponding saving of labor in handling the returns. The same economy is effected in tracing and in correspondence.

THIS PLAN REDUCES THE EXPENSE ONE HALF AND AT
THE SAME TIME GETS BETTER RESULTS

Viewed from the standpoint of the country banker, this plan relieves him of considerable work. Instead of having to prepare a number of drafts, he makes out only one. Similarly, one envelop is sufficient, thus resulting in a saving of postage and stationery. One country clearing house, for instance, which has handled items of nearly 6,000 banks, has saved 50% on the general gross expense involved. Furthermore, the time for getting returns has been sharply reduced. This concretely illustrates the advantage of the plan from all angles.

In organizing a clearing house, each bank which elects to become a member is given a number under which its business is transacted. By using this number instead of the name, which frequently consists of two words or more, a great deal of the time is saved.

Each member maintains a clearing house department, usually in connection with the transit department, and all items drawn or payable at the other member banks are charged against it. The items, as

a rule, are first recorded in the department where they originate. When they reach the clearing house, they are examined for the date, the signature, and so on. Then they are indorsed with a rubber stamp which shows the clearing house number of the clearing bank and the date of the clearing. The next step is to sort and place in a separate pile all the items drawn on or payable at the member banks. When the sorting is finished, each pile of checks is listed, and following the process in the country collection department as already outlined, the items are placed in packages, the list covering each package is attached to the face, and they are sent to the clearing house. Each package list is there indorsed with the regular clearing house indorsement stamp.

The clearing house provides statement forms (Figure 69) which show the name and the number of the bank. The total entered on each package of items is listed in the proper columns opposite the name and the number of the bank in which the items are to be cleared. Then the statement is footed, and if all the totals prove to be correct, the packages are rushed by messenger to the clearing house, because delivery must be made at a definitely fixed time.

The exchange room at the clearing house is equipped with a cage or a desk for each member, at the head of which the manager or one of his assistants sits. After the messengers reach their respective cages they pass around their various packages of items, package number 1 going to cage number 1, package number 7 going to cage number 7, and so on. When the deposits are thus made, each messenger has before him on his desk a package of items from each member. He notes on his statement in a column headed "from clearing house" and opposite the names and numbers of the members, the amount indicated on the package received from each. These packages

DETROIT CLEARING HOUSE ASSOCIATION
COUNTRY CHECK DEPARTMENT

You are charged exchange as below on your deposit of _____

Rate	Amount deposited	Exchange
Par		
10c		
5c		
Total		

\$ _____

To _____ Manager _____

Figure 68: A form like this for each member bank is filled out daily by one clearing house to show the exchange charged on foreign items.

NAME _____				BALANCES EVEN THOUSANDS				FINES
NO. _____ DATE 5/13/18								
NAME	NO.	DEBIT	CREDIT	DR.	NO.	CR.		
First and Old Detroit	13	9199409	17013460			1		
First State	7	36931	34579			7		
Detroit Savings	9	121	1657111			9		
Peoples State	10	13475079	13421320			10		
John L. Harper and Co.	15					15		
Peninsular State	17	6327361	21376477			17		
Dime Savings	21	1530316	1335632			21		
Wayne County and Home	23	7872	2215516			23		
National Bank of Commerce	24	10409491	933246			24		
Central Savings	26		446256			26		
Merchants National	27	139155	1324782			27		
American State Bank	28	143410	241690			28		
Country Check Department	99					99		
	29	1037081						

Figure 69: The clearing house furnishes each member bank statement forms like the above on which the clearing department lists its items on other banks. This standardizes as well as speeds up the routine.

DETROIT CLEARING HOUSE ASSOCIATION COUNTRY CHECK DEPARTMENT		FINE CREDIT	
BANK NO. _____		BANK NO. _____	
You are charged for fines:			
Error in reporting total deposit _____		Total Deposit _____	
Error in stub or letter total _____		Stub or Letter _____	
Checks listed on wrong point _____		Listing _____	
Date _____	TOTAL	Date _____	TOTAL
Manager _____			

Figure 70: In this simple way member banks are fined for the delinquencies noted. The stub is a record for the clearing house.

DETROIT CLEARING HOUSE ASSOCIATION									
CITY CLEARING <u>May 27</u> 191 <u>8</u>									
File NO.		DEBITS	CREDITS	CHECKS DR.	BALANCES DR.	NO.	BALANCES CR.	CHECKS CR.	

DETROIT CLEARING HOUSE ASSOCIATION									
RETURNED ITEM CLEARING <u>May 27</u> 191 <u>8</u>									
File NO.		DEBITS	CREDITS	CHECKS DR.	BALANCES DR.	NO.	BALANCES CR.	CHECKS CR.	
1	1 FIRST AND OLD DETROIT NATIONAL	1/10/20	20000		70000	1			
2	7 FIRST STATE	20000	100000			7	70000		
3	8 DETROIT SAVINGS	30000	20000			8			
4	10 PEOPLES STATE	20000	100000		100000	10			
5	16 H. L. HARPER AND COMPANY					16			
6	17 PENINSULAR STATE	10000	70000			17	20000		
7	21 BONE SAVINGS	10000	20000		30000	21			
8	23 WAYNE COUNTY AND HOME SAVINGS	20000	20000			23	10000		
9	24 NATIONAL BANK OF COMMERCIAL	20000	100000			24	100000		
	26 CENTRAL SAVINGS	50000	200000			26	100000		
	27 MERCHANTS NATIONAL	20000	100000			27	100000		
	28 AMERICAN STATE	10000	100000			28	100000		
	29 COUNTY CLEARING DEPARTMENT	20000			50000	29			
	TOTAL	100000	1000000		100000		1000000		

Figure 71: The totals of all the statements from member banks (Figure 69) are entered on the above sheets, which show on one side the city clearings and on the other all of the returned item clearings.

are then rushed back to the bank and distributed to the accounting department for verification, and so on. A duplicate of each statement is retained by the manager of the clearing house, who enters in his records the net debit and credit balances of the various members (Figure 71).

In settling the balances, the clearing house manager usually draws checks against the debtor banks in favor of the creditor banks. These checks are payable in cash and settlement must be made before the close of the day.

Owing to the speed with which the clearings must be handled, there is often a temptation to slight the work. It is essential therefore to guard against mistakes. Furthermore, the clearings cannot be delayed, on account of the heavy cost involved. In order to encourage prompt delivery of the items at the appointed hour and to insure accuracy on the part of the clerks, fines are imposed for wrong clearings, absence of indorsements, and similar errors. These fines cover a wide range. In the clearing house, for example, a member bank's tardiness or delay through error is fined \$1 for the first 15 minutes, and this assessment is doubled for every following 15 minutes, thus: \$2 for 30 minutes, \$4 for 45 minutes, and so on. The fines are then charged to the offending member bank's account on a special form (Figure 70). The stub is retained at the clearing house as a record.

Thus the clearing house exerts a strong influence on the regulation of exchange and collection charges and is an effective instrument in taking care of the common interests of all the banks in a community. Each bank becomes a part of a united structure which strengthens the credit facilities of all.

CHAPTER XVI

HANDLING COLLECTIONS AT A PROFIT

A COUNTRY bank in the Middle West has worked out a simple and definite method for handling collections, which has stopped a number of leaks and netted a constant, worth-while profit. More than that, it has removed the cause of much annoyance to customers who considered the old ways of charging fees for collections unreasonable.

Within a month after installing the new system, the bank reduced by 20% the losses on unpaid collections. During the 60 days following that first period, the percentage of losses gradually was cut 48%. In other words, the number of collections on which fees were paid increased rapidly until at the end of three months nearly one half of the items formerly returned by this bank uncollected produced an income where a loss existed before.

The plan, which will be described in this chapter, helped to reduce labor by more than one half and it also simplified the accounting system. By lessening the misunderstandings that usually cropped out under the old-fashioned system, it naturally contributed to a more effective service policy and greater good will. Furthermore, the returned items were made to stand a proportionate share of the cost of handling.

In many banks, especially the country banks, the collection department often represents a source of loss, yet the service cannot be eliminated without possibly working a hardship on customers. Moreover, collec-

tions are sure to be sent to the bank whether it wants them or not, and it is therefore essential for every bank to adopt methods which will make the collections a source of revenue and a means of creating improved service. It is probably true that in the great majority of cases the item to be collected is not accompanied by postage for its return in case of non-payment. Thus, the banker who desires to operate this branch of the business at a profit should have a definite plan.

The system under consideration was decided upon after the officers of the bank had watched and checked collections carefully for a period of 60 days. Dissatisfied with the showing, they analyzed the problem thoroughly and then hit on the simple plan which makes use of the three forms shown in Figures 72, 73, and 74. The first is the remittance form, which is printed on white paper. The stub is for the "returned unpaid" notice and is detached at the perforated line. The register, which is shown in Figure 73 is printed on onion skin tissue and serves as a permanent record of the collection, while the notice to the payer (Figure 74) is pink and includes a stub for the payer's instructions to the bank.

When a collection is received, the clerk makes out the details on Figure 72, and these facts are automatically transferred at the same time to the other forms by means of carbon paper. The notice to the payer has been found almost as effective as a personal call for payment. Besides, its make-up and wording has successfully prevented antagonizing a customer. Notice that the stub, which he is asked to return to the bank, provides in advance for a definite answer. He has only to check one of the squares giving alternative instructions, and sign his name. This, of course, is far more agreeable both to him and the bank, than the old indefinite way of leaving it up to the customer to "think up" some answer.

THE FIRST NATIONAL BANK OF TAYLORVILLE, ILLINOIS.						KINDLY RETURN THIS SLIP TO BANK WITH REMITTANCE REQUESTED BELOW	
DATE OF THEIR LETTER		DATE RECEIVED		OUR NO.		DATE	
RECEIVED FROM	YOUR NO		FORM	B/L	INT.	DATED	DUE
					%		
PAYEE	PRO.	MEMO.		AMOUNT			
	YES						
	NO						
PAYER	INTEREST						
	TOTAL						
INSTRUCTIONS:	LESS DEDUCTION FOR						
	LESS EXCHANGE						
	WE CREDIT YOUR ACCOUNT						
	WE ENCLOSE DRAFT ON FOR						
	DATE PAID						
REASON RETURNED 							
PLEASE REMIT \$ TO COVER OUR EXPENSE IN HANDLING THIS ITEM							
THE FIRST NATIONAL BANK TAYLORVILLE, ILLINOIS							

Figure 72: This form in triplicate has greatly reduced one bank's expense losses on returned collection items. The stub at the right when filled in with the proper amount, has brought worth-while returns.

THE FIRST NATIONAL BANK OF TAYLORVILLE, ILLINOIS						RETURNED UNPAID	
DATE OF THEIR LETTER		DATE RECEIVED		OUR NUMBER		DATE	
RECEIVED FROM	YOUR NUMBER	FORM	B/L	INT.	DATED	DUE	REASON RETURNED
					%		
PAYEE	PRO.	MEMO.		AMOUNT			
	YES						
	NO						
PAYER	INTEREST						
	TOTAL						
INSTRUCTIONS:	LESS DEDUCTION FOR						
	LESS EXCHANGE						
	WE CREDIT YOUR ACCOUNT						
	WE ENCLOSE DRAFT ON FOR						
	DATE PAID						THE FIRST NATIONAL BANK TAYLORVILLE, ILLINOIS

Figure 73: The second sheet of the collection form shown in Figure 72 is reproduced here. It acts as the permanent record or register of the item, and gives all data about the disposal of the collection.

As soon as a payer returns the slip the bank knows exactly the procedure to take, for the instructions show whether it is to pay the item and charge the amount against his account; to hold the collection a reasonable length of time until he can pay; or to return the draft unpaid, with the reason attached. The remittance form, of course, remains in the file until the item is either paid or returned. This acts as a tickler for the bank against allowing a collection to remain out too long.

A TESTED METHOD THAT MAY WORK EQUALLY WELL
IN YOUR BANK

When an item is paid, the exchange and other deductions are entered on the remittance sheet and transferred to the permanent record or register sheet by means of a carbon. Then the remittance form, after the "returned unpaid" slip has been detached, is dispatched with the remittance to the drawer or maker of the item, and affords a complete record of the collection for his information.

If the item is returned unpaid, however, the reason is entered on the "returned unpaid" stub, of which also a permanent record is automatically made by carbon on the register.

This little "returned unpaid" slip is really the unusually effective magnet that has brought back to the bank, to cover its labor and expense in trying to collect an item, many a fee which would otherwise have been lost. The pulling power of the stub is due to these pointed words, in red: "Please remit—cents to cover our expense in handling this item." In the blank space, 10, 15, or 20 is inserted, depending on the time and effort expended. Thus, profitable results were obtained as outlined at the beginning of the chapter. In order to make the return of the fee as easy as possible, the bank also enclosed a self-addressed

(not stamped) return envelop. A test showed this to be worth while to get the money in. The officers of this bank consider the collection of fees on 48%, or nearly half of the items returned, a very desirable record.

To summarize the results of this one plan, let us compare the losses under the old method used with the profits under the new:

LOSSES BY OLD METHODS

- a. 70% of the collections returned unpaid, representing a loss in time due (1) to making out separate forms for every transaction, when entered, when paid, or when returned; (2) to presenting items personally and making out the payer's instructions.
- b. Postage paid on 60% of items returned unpaid to makers.
- c. Ill feeling against the bank, caused by personal collection methods, sometimes resulting in the actual loss of accounts.

PROFITS UNDER NEW METHODS

- a. Exchange equal to an average of 20 cents earned on each item paid. One third of all items presented are paid.
- b. A similar amount of exchange earned on nearly 50% of all items returned unpaid.
- c. A friendly means established to find out how tradespeople are meeting their obligations—a valuable help to the bank which does not arouse its customers' displeasure.

And this is only one of many plans that have been worked out to handle collections profitably. For, as every bank knows, the collection department, although at times somewhat of a problem, is one of his most important activities. In the course of a year, banks, both large and small, handle bonds, coupons, notes, and mortgages; drafts of various kinds; certificates of deposit, checks and bank drafts; insurance claims and vouchers; and many other similar instruments of value. Checks are payable when presented; time items, when due, as indicated by the maturity. Sight drafts, when accepted, are payable on demand.

The items under this activity, then, which the bank handles, may be classified as collection items and cash

items. A city collection often is presented by messenger and a foreign collection, of course, goes through the mails. These items may be further classified as cash items which are payable on presentation, and time items. Cash items include drafts, notes, and other papers payable at sight. Time items cover those payable at a definite time and are usually sent to the payer in advance of the date they are to be paid. By advising customers of this distinction, time is often saved in sorting.

The work of handling collections, to be done properly, requires close supervision. To begin with, the teller on coming to his desk in the morning checks up the items and withdraws from his portfolio all the city collections maturing that day. Some of them are probably payable through the clearing house as outlined in Chapter XV. These are charged and delivered to the note teller after previously prepared letters of advice and credit tickets have been attached. These he retains until some disposition is made of them before the settlement hour. This hour is usually 2:30 p. m., excepting Saturday, when it falls earlier.

The collection teller in the interim holds the records describing the items delivered and receives a report on them later in the day.

Early in the morning, between 7 and 8 o'clock in many banks, the department receives its quota of items from the morning mail, and the task of separating unpaid and "live" items is begun. The head of the department checks off from the letters received the collections that are listed, segregating the returned "unpays" and noting the reason for refusal (if stated) on each item, and also canceling the bank's indorsement. Then the new city sight and time items, as well as those payable out of town, are given attention and marked according to their classification. They are now ready to be recorded.

The letters from which the collections have been checked go next to the advice clerk to be acknowledged. The registering of the city sight items, the time items then due, and the drafts for acceptance, always precedes the recording of out-of-town items. In this way there is the least possible delay in disposing of the local collections.

Drafts and acceptances drawn on firms and individuals, also time paper due, and those items payable within a reasonable period, are placed in the teller's basket. To facilitate the work in one bank, each piece of paper has the customary payer's notice attached. All these items are then turned over to the head messenger, who distributes them to his helpers. If the bank is small, one messenger may do all the work, even to the outside calls. If there is more than one messenger, each works a definite route. In presenting items, the messengers usually leave a memorandum in the event the payer is not at his desk. How the work of the messenger facilitates the routine is outlined in the next chapter.

Letters containing drafts in payment of items are first given to the general bookkeeper and are checked by him and his assistant. Then the letters, with proper notations on them, go to the collection teller who checks the letters and makes the corresponding change in his records. This must be done very carefully and the old-fashioned, bound collection register, not calculated to keep pace with these strenuous requirements, has been generally discarded. A card system has taken its place in many banks. Advices of credit received from out-of-town correspondents are checked in the same manner. After this both the debit and the credit tickets are assorted in divisions conforming to the accounts in the bank's ledgers. To balance the cross-entry book, the amounts of drafts received in payment of items are listed separately

from the letters and the charge tickets on the debit side. These totals agree with the aggregate amounts of listed credits on the opposite page. The teller's total of listed payments is proved on a proof sheet which is written up from the items. There is, therefore, little opportunity to break a balance.

Advices of credit for city customers are temporarily filed in a portfolio alphabetically indexed. When a customer presents his pass book, these advice tickets are withdrawn and entries are made from them, without reference to the bookkeeper's ledger. The advices, as well as all unpaid items are delivered to the depositor at this time.

In one bank, collections of a bulky nature—those accompanied by bonds, stocks, mortgages, and other documents—are entered in a special book kept for the purpose (Figure 75).

A SIMPLE CARD RECORD THAT HELPS TO ELIMINATE
ERRORS—THERE ARE OTHER ADVANTAGES, ALSO

When the assistant teller has completed the registration of the mail items and has passed records and letters to his associates for checking, he is reasonably sure that all instructions have been noted and followed out. By having a card record for out-of-town banks, giving their terms for handling cash and collection items, the teller finds it an easy task to prepare each collection without making any errors. Thus, he knows that each item is consigned to an accredited bank or agency, which means that the transaction will be taken care of promptly or returned (Figure 76).

Collections received from city customers throughout the day are subject to the same careful recording and handling. Telegrams often help to get quick action on collections. The results, of course, are dependent on conditions and on the amounts involved. Sometimes a wire is advisable if paper subject to protest remains

	Capital and Surplus, \$3,000,000	Established 1891
	THE NATIONAL BANK OF THE REPUBLIC CHICAGO	
John A. Lynch, - - - President William T. Fenton, - 1st Vice-President Robert M. McKinney, 2nd Vice-President Oscar H. Swan, - - - Cashier Wm. B. Levinia, - Assistant Cashier Thos. D. Allen, - Assistant Cashier Louis J. Meahl, - Assistant Cashier Wm. C. Freeman, - Assistant Cashier		
ENCLOSED PLEASE FIND THE FOLLOWING DESCRIBED ITEMS FOR COLLECTION AND RETURNS.		
Surrender documents attached on payment only. Wire non-payment of items \$500 or over. Protest all items over \$10 unless marked with this stamp, or a similar authority of a preceding indorser. Please RETURN THIS LETTER with your remittance, or report by DATE. N.P. 2-13		
PAYER	INSTRUCTION	AMOUNT

Figure 76: Here is a satisfactory collection letter form for items sent out of town. Note the small star which serves as a key to enable the typist to write the address so that it will fit a window envelop.

COLLECTION DEPARTMENT	No. 38488
NO PROTEST	
THE NATIONAL BANK OF THE REPUBLIC CHICAGO	
CREDIT	
Their Letter Their Number	
OUR No. 38488	

Figure 78: Here is the second sheet of the collection record shown in Figure 77. At the top is provided a copy of the transmittal letter for filing, and at the bottom a credit slip for the bookkeeper's record.

NO. 2018

THE NATIONAL BANK OF THE REPUBLIC

Chicago

THE COLLECTION DEPARTMENT encloses herein for **COLLECTION** the following described items, not to be credited until paid. If drawn with exchange it must be remitted for at par. Please acknowledge or advise payment by number.

NO PROTEST

4/18

OSCAR H. SWAN, Cashier

Note 4/1/17 - 4 mos

8/1/17

Ames and Lane

450.00

60/03xt

TO First National Bank
Chicago
Ill

Surrender documents attached on payment only

THE NATIONAL BANK OF THE REPUBLIC

Chicago

*State Bank of
Chicago*

•ADVICE OF CREDIT

Their Letter 4/17

450

Their Number 3741

Ames and Lane

OUR NUMBER 2018

Figure 77: Collection routine in one bank has been greatly reduced by the use of the above advice and collection register. This original sheet combines the advice of credit on the item received and the letter of transmittal. On pages 224 and 227 are shown the other copies.

unpaid or unaccepted at the close of the day. "No protest items" are generally held for three days, and if unpaid or unaccepted at that time, are returned.

Time paper received during the day is promptly examined by the teller who checks maturities and other items. His associate meanwhile sends out the customary notices, which winds up the day's business.

To minimize collection routine, one bank uses a combined advice and collection register, numbered in triplicate (Figures 77, 78, and 79). The sheets are tabbed like letterheads in sets of 50, the upper or first sheet in each case comprising a letter of transmittal together with an advice and debit ticket. On the second form is printed a copy of this letter and a credit ticket. The third sheet is of cardboard and, when the form has been written, shows the date of the letter, to whom it is sent, where the collection is payable, by whom it is drawn, the payer, the indorser, whether it is payable at sight or on demand, when it is due, the owner's number, the amount, and whether or not it is subject to protest.

Thus, in this bank the collection department writes, in one operation, the collection letter, together with the advice, the credit and the debit tickets. At the same time it gains for its records in the third copy a definite description of the items from inception to finish. In reality the one form accomplishes five different and distinct results. The entries on all of the three sheets are identical, yet they perform different functions as outlined, thus making a substantial saving of time possible and reducing the chances of error in this bank five to one.

These forms provide for the registration of a single item only. This may seem like a waste of time and paper, but it must be remembered that under the old-fashioned system each item is recorded separately. Although many collections consigned to one bank may

COLLECTION DEPARTMENT	NO. 38488
TRACED _____	
NO PROTEST	

CREDIT
Their Letter Their No.
OUR NO. 38488

Figure 79: This is the third sheet of the collection plan which has operated to the advantage of one bank. This copy is of heavy manila and when filled out serves as the office record of the transaction

OFFICE RECORD		Number	
Number or Date	Drawee or Maker	Amount	
Date Received	Due	Returned	
B-L Issued Railroad	Date	Special Instructions	
At	Car Number	Route	
Order	Paid		
Notify	Notary		

Figure 80: This is the original of a collection record in quadruple form successfully used by an Ohio bank. On page 231 its important features are set forth. The three copies are shown on succeeding pages.

be included in a single letter; yet, for reasons already given, time has actually been saved under the new plan notwithstanding each item is written singly on its own individual form.

After the collections have been registered, the upper half of sheets one and two are detached and the advice, the debit and the credit tickets are placed with the third sheet in a vertical file supplied with numerical tabs. Each day's work is separated and filed in numerical order.

The collection letter accompanies each item, while the duplicate is placed in an alphabetical file as a key for reference, should a collecting bank report without giving the date of the letter. At times it is desirable to know the amount of outstanding collections held by a certain bank; these letters quickly divulge the needed information. They are also valuable adjuncts when filed with paid records, enabling one to locate readily an item about which there may be some question. A four-drawer cabinet, approximately 12 inches high, 18 inches wide, and 18 inches deep, provides working and filing space for thousands of records.

The city collection forms which the bank uses are also printed and numbered in triplicate, and are tabbed in the same manner as the out-of-town records. When written up, the first sheet acts either as a letter describing an item unpaid or an advice of credit. It is useful for either—even if in total contract—and thus enables the bank to handle its records easily and without duplicate effort. The second sheet is the payer's notice as well as the tickler for reference at the beginning of the day's work. The third form, or card, gives a description of the collection similar to its companion form for recording out-of-town items.

These forms may be written on the typewriter or with pen. The plan is only one of several to speed collections. Let us consider also the system by which

OWNER		BOOKKEEPER
		DO NOT MAIL
Number or Date	Drawee or Maker	Amount
Date received	Due	

Figure 81: Here is the second copy of the practical collection record described on page 231. Notice that the name of the owner of the paper goes in the upper left space, making quick reference easy.

FIRST NATIONAL BANK OF CLEVELAND		ADVICE
Number or Date	Drawee or Maker	Amount
Date received	Due	
CITY COLLECTION DEPARTMENT		Disposition We

Figure 82: To advise the bank from which an item for collection has been received, of just what disposition has been made of it, this third copy of the collection form meets all department requirements.

FIRST NATIONAL BANK OF CLEVELAND		
Received from		ACKNOWLEDGMENT ONLY
Number or Date	Drawee or Maker	Amount
Date received	Due	
SPECIAL ADVICE		The above described item has been entered for collection.
We will consider it a favor if you will advise us of any unsatisfactory handling of your business.		

Figure 83: At the same time that the other copies of the collection record are made out, this fourth sheet is automatically prepared to be mailed as an acknowledgment of the receipt of the item described.

THE FIRST NATIONAL BANK, CLEVELAND	
To _____	Cleveland, O., _____
WE CHARGE YOUR ACCOUNT FEES AND RETURN HEREWITH THE FOLLOWING ITEM PROTESTED:	
Maker or Drawee _____	
\$ _____	Number _____ Fees \$ _____
The First National Bank CLEVELAND	
Office Record File	
Bookkeeper. Do Not Mail	

Figure 84: Since devising this form one bank finds it easy to keep all uncollectable items separate. The original copy is the advice to the bank; the second is for the bookkeeper; and the third, the office record.

an Ohio bank collects on time from 30% to 40% of all the items it receives. It has set a pretty good record, considering the obstacles encountered in making these collections.

When this bank receives a draft for collection, the teller in charge enters it on a slip (Figures 80, 81, 82 and 83), which is made out in quadruple form. The first copy is the office record and is filed alphabetically according to the name of the drawee of the draft or of the maker of the item to be collected. Spaces are provided for the amount, for the date received, for the date due, and so on. These forms are used principally for grain, produce, and other drafts where a bill of lading may accompany the item for collection. Additional spaces, for this reason, are provided at the bottom for information about the shipment and other advice from the railroad.

SOMETIMES A SPECIAL FORM TO MEET A PARTICULAR
REQUIREMENT WILL SAVE CLERICAL EXPENSE

On the original copy, in the upper right-hand corner, is a blank space for entering any special information. The goods covered by the draft, for example, may not have arrived at the railroad station and it may be important to register this information. Or it may be advisable to give the item a special number. All such advice can be entered in this blank space. Ordinarily when running through any records to find an item and see why it has not been paid, the eye naturally falls on the data in that particular corner. The information, therefore, can be found readily without taking the forms from the file.

In order to facilitate the work and save time, any items to be returned are so designated by having the date the return is made entered in red under the word "returned." When items are paid, the date is entered in green under the word "paid." Thus, any officer or

CHARGE

Cleveland, O. _____

For Item Credited This Day and Returned From Clearance
Number _____ Date _____ \$ _____
Drawn by _____

**FIRST NATIONAL BANK
CLEVELAND**

For Item Credited This Day and Returned from Clearance
Number _____ Date _____ \$ _____
Drawn by _____

**FIRST NATIONAL BANK
CLEVELAND**

Figure 85: An Ohio bank finds this form convenient for charging back uncollectable items sent in by correspondent banks. One copy is the bookkeepers' charge ticket, the other goes to the correspondent bank.

Cleveland, O. _____ ①

We charge your account and return herewith the following item received
in your Cash Letter of the _____ instant
Reason indorsed _____

②

**RETURN
APR 8 - 1918**

**REMIT
APR 9 - 1918**

**CREDIT
APR 9 - 1918**

_____ **BANK**

**FIRST NATIONAL BANK
CLEVELAND**

Figures 86 and 87: Number 1 in triplicate is used for charging back items credited to correspondent banks, but not collected. The rubber stamps on number 2 are used to designate the disposition of each item.

	Cleveland, O. _____
The following item received in your Cash Letter of the _____ instant is Not Paid. We charge your account and <u>Enter for Collection.</u> \$ _____ If you do not wish this item held for collection, advise us by Letter or Wire. Address replies to City Collection Department.	
FIRST NATIONAL BANK CLEVELAND	

	Cleveland, O. _____
The following item received in your Cash Letter of the _____ instant is Not Paid. We charge your account and <u>Enter for Collection.</u> \$ _____ If you do not wish this item held for collection, advise us by Letter or Wire. Address replies to City Collection Department.	
FIRST NATIONAL BANK CLEVELAND	

Figure 88: When necessary to charge back to the correspondent bank items handled as cash but for some reason not collected, the form reproduced here is used by one bank. Three copies handle the routine.

REASON Account attached	FIRST NATIONAL BANK, CLEVELAND, OHIO NO. 613
REASON Account attached	CHARGE NO. 613
REASON Account attached	FIRST NATIONAL BANK, CLEVELAND, OHIO Returned to NO. 613
REASON Account attached Amount Date Indorsement Maker assigned No account Not sufficient funds Account closed Ordered returned Pass book must accompany Payment stopped Protested Receipt only Receipt to voucher Signature We prefer not to handle Drawn against uncollected funds Our correspondents refuse to handle	FIRST NATIONAL BANK, CLEVELAND, OHIO NO. 613 To _____ Date _____ We charge your account \$ _____ For the following item previously credited: Drawn by _____ Bank _____ City _____ This item will be returned to you on the surrender of this receipt properly signed, either by mail or if presented to City Collection Window No. 11. RECEIVED ABOVE DESCRIBED ITEM Signed _____ Date _____ If not called for, this item will be returned with vouchers at end of month.

Figure 89: One bank has saved much time and avoided confusion by having customers sign a receipt like this for every uncollectable item returned. Pages 235 and 236 explain the advantages of this plan.

clerk of the bank can tell instantly from this file just what disposal has been made of a particular item.

The second copy of the quadruple set goes to the bookkeeper for his advice. The name of the bank from which the draft is received shows plainly in the upper left-hand corner, so that the bookkeeper can tell immediately what account is involved. The third sheet is for the advice of the bank from which the draft is received. The fourth copy is simply for the acknowledgment of the item when it is received. These forms are printed six on a sheet to facilitate the work of the teller in entering the items received each day.

The triplicate form (Figure 84) is used for items which the bank knows from local conditions are practically impossible to collect. The first sheet goes to the bank which has sent the collection; the blue sheet goes to the bookkeeper to enable him to make the proper charges for handling the item; and the third sheet, which is yellow, is used for the office record file. The value of this particular form to the bank is that it easily segregates the doubtful items from the good possibilities and makes the routine easier to handle.

Sometimes items which have been received from correspondent banks and have been credited provisionally, are found to be impossible to collect. In instances like this, it is necessary to charge the items back. Figure 85 shows how this is handled. The blue copy goes to the correspondent bank, and the yellow one is kept for the bookkeeper's advice and for the office record.

To save time in bookkeeping the rubber stamps (Figure 86) are used at the collection desk to show whether the item is to be credited, the amount remitted, or the item itself returned. For regular items on which collection has been expected but for some reason has not been made, the form shown in Figure 87 is used

to charge back the amounts which have already been credited. The first copy goes to the correspondent bank, the second one goes to the bookkeeper to make the proper charge, and the third copy remains as the collection department's office record.

CASH ITEMS HELD OVER		\$ _____
		Drawee or Maker
ENDORSER _____		
RETURNED FROM _____		
INSTRUCTIONS: _____	Held over	Paid

C A S H		\$ _____
		Drawee or Maker
ENDORSER _____		
RETURNED FROM _____		
INSTRUCTIONS: _____	Held over	Paid
	Notary	Returned
DATE RECEIVED _____	Collection	

Figures 90 and 91: These two forms are used by one bank to list items credited as cash, but held in suspense for some reason. The "cash" sheet is for checks and the other is for regular collections.

To notify correspondent banks of items which have been handled as cash and which have not been paid, but are held subject to instructions for collection, Figure 88 has proved an effective instrument. The top sheet goes to the correspondent bank as its notification, the blue sheet goes to the bookkeeper to make the charge back against the account until collection is made, and the third sheet is for the office record.

This same bank has simplified also its methods for handling the items for collection received from its own customers by using the form shown in Figure 89. Often a good customer will offer a draft or other item

for collection along with other deposits to be credited to his account. Perhaps the banker later finds it impossible to make the collection.

"Formerly we had a great deal of trouble," says the collection manager of the bank, "because we would return items of this kind to depositors and charge their accounts, only to have them later claim their accounts were short. They professed ignorance of ever getting the returned uncollected items back. This naturally caused considerable friction, and sometimes almost lost us customers. This new form in quadruplicate was designed especially to take care of this particular problem."

As soon as an item comes in from a customer for credit and collection, the information is entered on the original copy of the record, and the details are automatically passed through carbons to the other sheets, all of which are numbered. The pink sheet is immediately attached to the item, while the other copies are filed numerically pending the collection or noncollection of the instrument. When the item goes out for collection, the pink sheet remains in the file to take its place and to act as a substitute current record while it is out. If the item comes back uncollected it is filed in place of the pink sheet which is then taken out and used as a notification to the customer. The blue sheet goes to the bookkeeper to make the proper deduction on the customer's account; and the fourth sheet, which is filed alphabetically, acts as the office record of this item.

The original or first sheet, however, still remains. And it forms a valuable link in the plan. When the customer, on receiving the pink notice, comes in to take up the item, he is asked to sign the original record as evidence that he has received it back uncollected. He also affixes the date. If he does not come in, the item goes back to him with his vouchers

at the end of the month, showing automatically that the charge has been made against his account. This prevents any chance of misunderstanding and loss. The plan has saved time and money, which means more profit at the end of the year.

This bank has also found two other forms useful (Figures 90 and 91). Where items have been received and credited as cash and have been held over for some reason, each one is listed on a yellow or an orange-colored sheet and kept alphabetically as a record for the following day so that they can be followed up and taken care of. The yellow sheet is used for regular collection items and the orange sheet for checks which have been taken in as cash but held in suspense for some reason. In this way there is no possibility of an item being overlooked.

Here, then, are the practical methods, which a number of banks have worked out from hard knocks and long experience, for handling in the quickest and safest way all of their incoming and outgoing collection items. That these methods have proved so successful is evidence that they will help other bankers to shortcut their routine and expense, thus paving the way to greater profits at dividend time.

CHAPTER XVII

SPEEDING UP THE MESSENGER SERVICE

IT doesn't much matter whether your bank employs one messenger or a dozen, the same fundamentals that make this work effective apply equally well to both. So even though this chapter will describe methods found profitable for organizing the messenger service in large banks and small, every idea presented is almost certain to suggest ways to improve some step in your routine.

Perhaps a slight change here or there will get the work done a little quicker or a little more accurately. Or, perhaps the substitution of one simple form for one outgrown will save dollars during the course of a month or year. At any rate, the work of the messenger is most important, and it is the purpose of this chapter to show how some bankers have organized and simplified this part of the routine to produce uniformly satisfactory results.

For banks which employ more than one messenger, the question of economical routing of trips has to be considered. Unless this point is wisely settled, lost time and unnecessary expense are incurred in handling city collections. A national bank in the South has facilitated its work by dividing the city into eight districts and routing the messengers' trips definitely over each territory. One man, of course, is assigned to each route, making eight messengers in all.

Six other workers handle the inside accounting details of the collection department. Two of these

clerks transact effectively considerable business over the telephone, covering in this way collections in outlying districts not reached by the eight messengers.

Each of the outside collectors has a route sheet which he returns to the head of the department at the close of each day. From his entries the collections are checked up and the records brought up to date. Under this plan some of the outside collectors cover only one or two buildings where the number of drafts presented each day is heavy.

The outside messengers also handle other important duties. A bank which is not a member of the clearing house, for example, receives its items each day from a messenger and gives in return a cashier's check covering the amount outstanding. Again, the tellers in the credit department may ask the collection department for information concerning checks which are drawn on other banks and offered for payment. When there is any doubt about the value of these checks, the messengers take them to the bank on which they are drawn to get them certified. This plan makes each item negotiable.

By dividing the city into definite districts, as already indicated, the messengers are enabled to become acquainted with the business men and to develop a spirit of helpful friendliness with each one. Thus the danger of any outside collector being tempted to solicit business, or of becoming too aggressive, is lessened. Having regular routes, each one too, comes to know pretty well the standing of various business men. When this is satisfactory, payers are sometimes permitted to hold drafts for a day or two; others who are not so dependable are denied this privilege.

Not long ago a dealer in wool offered his check to cover a draft for \$2,500. Before releasing the draft, however, the messenger insisted on determining whether the check was good. When he went to the

dealer's bank he found that the deposit balance was insufficient to pay the check. This is one example of many showing how the trained messenger exercises his judgment wisely to look after the bank's interests. He helps to minimize the number of checks returned daily on account of insufficient balances, improper signatures, or the lack of adequate indorsement.

YOUR MESSENGERS CAN RENDER VALUABLE ASSISTANCE
IF THEY ARE ON THE ALERT

The city collection department of one bank handles daily an average of 15,000 incoming and 4,500 outgoing pieces of mail. Some of this mail relates to the accounts of corporation customers who want their vouchers sent to the main offices at the close of each day. The messengers carry the packages of vouchers to the corporation offices and take receipts for them. This helps to cut the cost of the outgoing items, including about \$100 a day in postage and express charges.

This bank, like many others, seldom has any trouble with the big mercantile and industrial accounts. Usually, it is the small customer who bears close watching. When the little fellow orders merchandise in large lots, he is sometimes careless about planning to meet the drafts at the time agreed upon for presentation. Although he is promptly advised, it is not uncommon to hear him complain that he did not receive the notice. This class of business, therefore, requires extraordinary caution and the alert messenger never gives the dealer an opportunity to defend himself with flimsy excuses.

Thus, the messenger should be quickly trained to comprehend the importance of his task and the value of the paper he carries with him. By confining his work to a certain fixed territory, like the southern bank has done, the messenger finds it easier to meet men on his route and to learn their habits of doing business.

①

**THE
NORTHWESTERN NATIONAL BANK
COLLECTION DEPARTMENT**

Minneapolis, Minn., _____

Dear Sir:

We beg to enclose our draft for \$ _____

in payment of collection as follows:

Yours truly,
R. E. MacGregor, Cashier

②

**THE
NORTHWESTERN NATIONAL BANK
COLLECTION DEPARTMENT**

Minneapolis, Minn., _____

We Credit Your Account

Date or Number	Description	Amount	

For the collection of all items payable outside of this city, the Northwestern National Bank will observe due diligence in its endeavor to select responsible agents, but will not be liable in case of their failure or negligence or for loss of items in the mails.

R. E. MacGregor, Cashier

Figures 96 and 97: Number 2 is a convenient method for advising customers of credits for collections made. It is made up in the simplest form. Number 1 (Form 97) is used when payment in settlement of collections is required. Each item can be listed in the shortest time.

A northwestern bank exercises similar thoroughness in regulating the city collections within the bank, which in turn insures smoother handling of the work of the messengers. If the inside routine is not up to standard the outside collecting is pretty apt to show signs of carelessness. When the mail is received it is sorted into four divisions: Notes; drafts; remittances in payment of out-of-town collections which are given to the country collection department; and special transactions, such as real estate, bonds, and so on.

When the city collections are received they are entered on the record shown in Figure 92. Each city item is numbered on the back to conform to the numbers on the sheet. Thus the clerk finds it simple to locate any item in case it is returned to him by the messenger. All notes are entered on a form like Figure 93 and then they are filed according to their maturity. All letters of transmittal are retained by the collection department until the items which they contained are accounted for. Two files are used for the purpose. In one are filed the letters from the bank's correspondent and in the other all miscellaneous letters are placed.

Notes received from city customers are entered on Figure 94. These sheets are kept in a looseleaf binder and indexed alphabetically. The notes are filed according to maturity, the same as the notes received from out-of-town correspondents. This method has proved to be very helpful because it acts as a reminder to customers who leave notes for collection and who forget the due dates. It also affords a quick check-up on any information desired without having to refer to the notes themselves. This is important because it usually takes time to locate the note unless the exact maturity is known.

In recording collections on real estate deals, bonds, and other miscellaneous matters, the bank has found

the record shown in Figure 95 to be an effective time saver. When sending out advices of credit to customer concerns or correspondent banks, Figure 96 meets all the requirements effectively.

When a remittance is necessary, a form like Figure 97 is attached to the check or draft. This method of settlement applies to all concerns which do not carry a balance with the bank.

In this bank the operation of the country collection department is worth noting, since the plan differs from the clearing house method described in a previous chapter. To put through an item, a slip (Figure 98) is made out in duplicate. These forms are printed eight on a page for convenience in handling. The original slip, which is of light paper, is sent out with the item, and the copy, printed on tough manila, is retained as the office record and filed alphabetically. In order to keep track of the business as it is recorded on these cards, a customers' looseleaf ledger (Figure 99) is used. The payment or the return of the items is noted in the book and the cards are later filed according to the months in which they were sent out.

All of these plans insure prompt action on collection items and thus indirectly at least reflect more satisfactory service on the part of messengers.

The methods which have been described are adaptable to almost any reserve city bank and they also suggest ideas which can be used to advantage in many of the larger of the so-called country banks. Let us turn now, however, to a plan that is in successful operation in a bank located in a city of about 100,000. This bank, like many others of the same class, did not for a long time handle incoming collections as accurately and as promptly as it should have to gain the best results, and the head of the department was compelled to adopt new plans in order to eliminate duplication of effort and involved processes.

Capital, \$4,000,000
Surplus, \$2,000,000

COLLECTION DEPARTMENT
NORTHWESTERN NATIONAL BANK
MINNEAPOLIS, MINN. _____

NO PROTEST

We enclose this item for collection and returns.
IF NOT PAID WHEN DUE RETURN AT ONCE, unless
otherwise instructed by us.

To Be Paid by	Due	Amount

INSTRUCTIONS:

S. H. PLUMMER, Cashier

**Return
This Ticket
with Your
Advice or
Remittance**

NORTHWESTERN NATIONAL BANK
Minneapolis, Minn.

Date _____ Number _____

	Amount

Their Date

Their Date

Figure 98: For labor saving, this plan for handling country collections has proved satisfactory. The ticket is made out in duplicate and printed eight on a page for convenience. The original is sent with the item and provides a simple method for advice or remittance.

In order to understand the advantage of the method to be described, it is necessary to refer briefly to the various operations this bank previously required to handle its collections. First, all collections were entered in the collection register, a bound book of approximately 300 pages, each page having numbered spaces for 50 items. Each page was divided into several columns for the purpose of entering information pertaining to the item to be entered. The usual headings for the different columns were:

- | | |
|------------------------------|---------------------|
| 1. Date received | 7. Date of paper |
| 2. Our number | 8. Due date |
| 3. Name and address of owner | 9. Interest accrued |
| 4. Owner's date or number | 10. Date paid |
| 5. Protest or no protest | 11. Date returned |
| 6. Amount | |

After the items were entered, they were numbered and sorted according to the payer's street address. Those within the messenger's district were handed to him for personal presentation; others were either handed to the draft clerk, who sent out mail notices, or were attended to by telephone calls.

As in other banks, the messenger made a list of the amounts of all items handed to him to provide a check on his work when he made his returns later. He then made his calls in regular order. When he received payment for an item, he made out a remittance ticket or a credit ticket, depending on whether the item had been received for collection and remittance, or for credit and advice. It was in making out these tickets that mistakes sometimes were made, especially when a new messenger was pressed into service. For collections, as a rule, pass through the routine of several banks, most of which use a general blank indorsement stamp on them. The result was that the messenger was likely to pick any one of the indorsements as the last one, and make out his ticket accordingly. At times

the error was overlooked when the item was brought back to the collection teller. Items on which payment was refused upon presentation by the messenger were brought back, the reason for dishonor being marked on the back of the item.

Upon returning to the bank, the collector handed the ticket representing items paid, the checks and currency, and also the dishonored items, to the collection teller who checked them against the list made out by the collector before starting on his trip.

In the meantime, the teller had received payment for several items or received orders to return other items. For the items paid over the counter, the teller had to make out tickets, which delayed the customers.

ONE BANK CUT OUT A LOT OF WORK BY HANDLING
ITS COLLECTIONS IN THIS WAY

At the close of the day paid and dishonored items were marked off the register. This work was usually turned over to the draft clerk who naturally was not so familiar with the entries, as he had not seen the original items and therefore did not always catch errors made in the ticket. Remittance tickets and credit tickets were listed in the collection teller's cash book. Next, the notifications were prepared for the different correspondents who were to receive credit. Items dishonored were returned. This made another letter necessary. In addition the remittance letters had to be prepared and this included the work of making exchange deductions. Most all of the work was done by the draft clerk who also wrote up the drafts accompanying the remittance letters.

From the above description it is evident that even in this so-called country bank there occurred daily a number of problems to consider in handling effectively the routine work of collections. Indeed, it is just as big an activity relatively as in the large city bank, for

[illegible]

NO. 1498		8
COLLECTION DEPARTMENT		
GRAND RAPIDS NATIONAL CITY BANK		191
GRAND RAPIDS, MICH.,	191	RETURN
Insert below the word "CREDIT", "REMIT" or "RETURN"		91
WE		URN
Owner of Paper		
Address		
Their Date	Their No.	ount
Name of Payer	Amount	t
Date of Paper	Interest	
Due Date	Total	
Note	Less Exchg.	
B-L	Sight Draft	st
	Net	
CHECK ABOVE WHETHER NOTE B-L OR SIGHT DRAFT.		Protest
Remit to		
Other Instructions		

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return letters, remittance letters, letters of advice, and so on, are necessary for carrying on the department. Furthermore, proper service to customers is just as important with one messenger on the payroll as with 20. Therefore, it was to do away with a lot of this work and yet raise the service of the department to a high standard, that the following new plan, which has proved most practicable, was worked out:

Instead of the bound register, a set of triplicates the size of deposit tickets, all made out practically alike (Figure 100), are arranged in book or pad form with cardboard cover. They are printed 16 to 20 on a page, and perforated so as to be easily detachable. A set of these triplicates serve not only as a register; but also as a remittance; a credit or a return ticket; a remittance letter and an advice of credit letter, or a return letter. The tickets are all numbered and the copies bear the same numbers for checking and reference. The slips for handling foreign collections are somewhat similar (Figure 102).

When a collection is received the data called for on the ticket is written in the spaces provided. The item is then given the same number as that on the ticket, which facilitates handling. The original slip becomes the office copy, and is filed numerically. It therefore takes the place of the register, remaining on the teller's desk until the collection is taken care of.

The duplicate is attached to the collection, and becomes either a deposit ticket, a remittance ticket, or a return ticket according to the disposition of the item.

The triplicate stays on the teller's desk until the item is taken care of. After that it becomes either an advice of credit to the customer, a remittance letter to accompany the draft, or a return letter to go with the item to be returned. To accomplish this the teller uses three rubber stamps which carry the date and read respectively, "credit," "remit," and "return."

COLLECTION DEPARTMENT				THE OLD NATIONAL BANK COLLECTION DEPARTMENT			
Date <u>APR 10 1918</u> MAY 10 1918				Spokane, Wash. April 15, 1918, National Bank of Cheney Cheney, Wash.			
<i>Holding for arrival</i>				We enclose the following for Collection and Return: PLEASE REPORT BY OUR NUMBER			
Date	Due	Owner		Our No.	Drawn on	Amount	
Apr 15	Arrival	Draft Jones' Products Company 48 W. Sprague Ave Credit Account		88848	Cheney Cash Store O B/L Att.	48 90	
				NO PROTEST UNLESS OTHERWISE INSTRUCTED DO NOT CREDIT UNTIL PAID AND FULL CHARGE OF DISCOUNT UNLESS INDICATED ON THIS FORM			

Figure 101: For all outside collections a western bank employs this concise form. Note how all the data is entered plainly for quick reference.

FOREIGN COLLECTION DEPARTMENT GRAND RAPIDS NATIONAL CITY BANK GRAND RAPIDS, MICH.				19
PLEASE REPORT By No. <u>1211</u>				
OWNER OF PAPER				
ADDRESS				
THEIR DATE		THEIR NO.		
Name of Payer		Amount		
Date of Paper	Interest			
Due Date	Total			
Note	Less Exchange			
B-L	Sight Draft	Net		
Check above whether Note B-L or Sight Draft		PROTEST		
Gentlemen: We enclose the above described item for collection and return. Please observe the following instructions: Protest all items \$10 or over unless otherwise instructed. Drafts with Bills of Lading attached may be held for arrival of goods, unless otherwise stated. Do not hold collections for convenience of parties. Deliver documents only upon payment of items attached.				
GRAND RAPIDS NATIONAL CITY BANK				

Figure 102: So well did the collection system illustrated in Figure 100 work out, that this slip in quadruplicate was adapted successfully for foreign collections. It no doubt offers ideas for other banks.

Acct. No. <u>50010</u> THE OLD NATIONAL BANK of Spokane, Washington COLLECTION DEPARTMENT CREDIT <u>5/10</u> 1911 <i>John Papadopolous</i> <i>St. Marias</i> <i>Idaho</i>	Acct. No. _____ THE OLD NATIONAL BANK of Spokane, Washington COLLECTION DEPARTMENT CREDIT _____ 1911	Acct. No. _____ THE OLD NATIONAL BANK of Spokane, Washington COLLECTION DEPARTMENT CREDIT _____ 1911
YOUR ACCOUNT HAS BEEN CREDITED WITH ITEM DESCRIBED HEREON:	YOUR ACCOUNT HAS BEEN CREDITED WITH ITEM DESCRIBED HEREON:	YOUR ACCOUNT HAS BEEN CREDITED WITH ITEM DESCRIBED HEREON:
<u>No 11560</u> <u>Washington St. Co.</u> <u>4 morn Check</u>	No. _____ 114 70	No. _____

Figure 103: One bank uses this simple form to advise a customer that his savings account has received credit for a collection made.

TRACER D. W. Twohy, President T. J. Humbird, Vice-president W. D. Vincent, Vice-president J. A. Yeomans, Cashier W. J. Smithson G. H. Greenwood J. W. Bradley B. L. Jenkins Assistant Cashiers			
THE OLD NATIONAL BANK OF SPOKANE UNITED STATES DEPOSITORY Capital \$1,200,000.00			
COLLECTION DEPARTMENT			
PLEASE REPORT on items described below, for which we do not appear to have received advice remittance. If unpaid kindly return at once, except B/L drafts.			
J. A. YEOMANS, Cashier.			
Date sent	Description	Number	Amount
PLEASE REPLY HERE:			

Figure 104: To make the collection service as thorough as possible, this tracer form is used to follow up the advice in Figure 101. The blank spaces make it easy to fill in all the necessary information.

As just mentioned, both original and triplicate are retained on the teller's desk until the disposal of the collection is determined. The duplicate stays with the collection until it is paid, and then comes back to the teller. If the item must be returned, the duplicate also comes back to him. Therefore, as soon as he can dispose of an item, he has all three tickets on his desk, in different piles, but all numbered the same.

To show how simply the plan works, let us suppose, for instance, that an item is paid and must be credited. The teller brings together all three tickets pertaining to this item and stamps "credit" in the spaces provided for the purpose. The original goes to the permanent file, the duplicate becomes the deposit ticket, and the triplicate is mailed to the depositor as an advice.

Suppose an item is paid and must be remitted for. All three tickets are stamped "remit." The original goes in the file; the duplicate goes to the draft clerk as a draft ticket and is an order to him to issue a draft; and the triplicate becomes the remittance letter, accompanying the draft to the payee.

If an item is to be returned, all three tickets are stamped "return" and the original thus marked goes to the file. The duplicate is only of use as a daily record of returned items. The triplicate goes back with the dishonored item.

Exchange deductions on a remittance should be made by the collection teller, because the duplicate is an order to draw a draft and therefore must be net. It is hardly necessary to state that the teller should keep his originals and triplicates in their regular numerical order to insure quick reference if desired.

This system has been of great assistance in backing up the messenger service. It has enabled each collector to put through his items promptly, and has minimized errors and misunderstandings. The plan, in fact, has eliminated all confusion, so that the messengers leave

each morning with a clear idea of just what items they have in hand. They know also that their work must be done accurately because the inside routine requires a concise check-up on each transaction when they return to the bank at the end of each trip. Thus, mistakes are rare and detailed effort is accomplished easily.

THIS BANK'S COLLECTION SYSTEM HAS THE ADVANTAGE OF
BEING COMPREHENSIVE WITHOUT BEING CONFUSING

A northwestern national bank with \$1,200,000 capital uses still another idea that has produced decidedly effective results in raising the standard of collection service. It is the collection letter reproduced in Figure 101 which is printed on blue paper and provides for listing all items except city collections. The items are handled in a series, those received from individuals taking one set of numbers, those from banks another, and those from the credit department still another set.

In order to avoid conflict with each other, the most active of the series takes the highest consecutive numbers. The tab (Figure 104) printed in red is used for a tracer where necessary and two duplicate records are kept in the files of the bank for reference. When payment of the item is received it is returned with the proper advice. The reference ticket is then taken from the files and sent to the closed records.

By using a rubber stamp under the word "tracer" the bank indicates the date the item is sent. If the response is perfunctory, this is indicated at the right. When a collection is received from another bank, the number, besides being placed on the item, is also placed on the letter which is filed in an ordinary file and taken off at the same time the blue letter is removed from the current book. The disposition of the item, as indicated by the messenger, is marked on the correspondent bank's letter, which is then filed.

THE OLD NATIONAL BANK of Spokane, Washington COLLECTION DEPARTMENT		THE OLD NATIONAL BANK of Spokane, Washington COLLECTION DEPARTMENT		THE OLD NATIONAL BANK of Spokane, Washington COLLECTION DEPARTMENT	
MAIL TO <u>5/12 1918</u> <u>Fred Brown</u>		MAIL TO _____		MAIL TO _____	
<u>217-1st Ave</u> <u>Spokane</u>		_____		_____	
YOUR ACCOUNT HAS BEEN CREDITED WITH ITEM DESCRIBED HEREON.		YOUR ACCOUNT HAS BEEN CREDITED WITH ITEM DESCRIBED HEREON.		YOUR ACCOUNT HAS BEEN CREDITED WITH ITEM DESCRIBED HEREON.	
Date <u>5/5</u> <u>1918</u> <u>Walla Walla</u>	<u>00-</u>	Date _____		Date _____	

Figure 105: Here is a simple, compact form that has proved useful to one bank when passing credit to a customer's checking account. Note that the date of the item is given to permit of quick identification.

THE OLD NATIONAL BANK						Collection Department
CREDIT		Spokane, Washington, <u>5-10 1918</u>				
<u>Great Falls Natl Bank</u>						
<u>Great Falls, Mont</u>						
Date	Number	Description	Amount	Exchange	Amount Credited	
<u>5/10</u>	<u>4769</u>	<u>Astoria, Ore</u>	<u>180</u>	<u>10</u>	<u>179 90</u>	

Figure 106: This form is used by the collection department to notify a country bank that an item has been collected and placed to its credit. The facts given make a complete record of the transaction.

DRAFT REQUEST		THE OLD NATIONAL BANK		
FROM		SPOKANE, WASH.		
COLLECTION DEPARTMENT		5 - 10 1918		
<u>Seattle National Bank</u>				
<u>Seattle, Wash.</u>				
On <u>Acct.</u> \$ <u>497.50</u>				
Date	Number	Description	Amount	Exchange
4/27	50990	Great Falls	498-	50

Figure 107: Here is the way one bank puts through an order for a draft to be issued to a non-correspondent bank for collections made in its favor. Note the space for the entry of the exchange charged.

THE OLD NATIONAL BANK				
Capital \$1,200,000				
Spokane, Washington., 5 10.				
Seattle National Bank, Seattle, Washington				
We enclose our draft on " for \$ 497.50 in payment of the following collections:				
Date of your letter	Your Number	Description	Amount	Exchange
4 27	50990	Great Falls, Montana	498.	50
Our facilities are unequalled for handling not only Spokane collections, but items on any point in Washington, Idaho and Montana.				

Figure 108: When remitting to a country bank on a collection made, this typewritten form is used as an advice. While it contains the same data as given in Figure 107, it has a more finished appearance.

collection department with the amount and issues the draft. From the original, the stenographer writes a slip (Figure 108) which is forwarded to the mailing department and accompanies the draft. This slip has a neater appearance than the original and thus produces a better impression on the payee.

Investigation indicates that bankers everywhere, whether large or small, lay particular stress on having their messengers keep a complete record of every item they take out. A Michigan bank has worked out a "messenger sheet," which accomplishes the purpose easily and completely. This sheet (Figure 109) is large enough to cover the items for a fair-sized route. In actual practice it not only checks up automatically on the messengers, but it prevents delays in putting through the work.

Before this form was put into use, collected items, a great many times, did not receive the proper attention and were either misplaced or held for no particular reason. Now, at the end of each day's run, each messenger of the bank has to turn in this white sheet listing every collection which he has taken out during the day. If for any reason he has left a draft with customer for attention the following day or later on, he has to check it under the column headed "out," which shows what items he has not returned to the bank. Under the column headed "in" are the items, paid or unpaid which he brings back with him. In this way the collection manager has a check on every messenger and can keep absolute tab on every item which has been taken out.

Thus, this as well as other plans simplify the collection routine and perfect, as far as possible, the messenger service for the good both of the bank and of the business men whom the collectors call upon. More than that, each improved method helps to speed up collections and to insure accuracy in the work. It

matters not whether the need for better service presents itself in the prairie bank or in the city bank, the methods here outlined are adaptable either in whole or in part. And the betterment of the messenger service reacts to the benefit of the progress of the collection department, and of the entire bank itself.

CHAPTER XVIII

HANDLING TRADE ACCEPTANCES

THE importance of encouraging two-name trade acceptances is pointed out in Chapter VI of the volume of this series on loans and discounts. It is worth while here, therefore, to consider the acceptance from the standpoint both of its prompt collection and of its status as a credit risk. How can it be handled most advantageously?

Taking up the credit problem first, the banker is concerned, of course, with the proper appraisal of trade acceptances to find out their credit worth. The experience of a number of bankers shows the importance always of examining and comparing the relative credit standing of acceptors and the merit or demerit of their acceptances, just as with customer notes.

"We will always have acceptances that will be made at a better rate than some others," says J. Frederic Angell, of the American National Bank of St. Paul. "Some will be taken at a very low rate, while some will be refused altogether. A concern taking the acceptances of its customers will be using its credit in the same way that it would if it took its note to the bank and got a loan. The same questions will arise regarding the concern's credit standing. Whether it discounts its notes or its customers' acceptances—the basic security, which briefly is the ability to sell and collect on sales, remains the same."

The experience of bankers so far shows that the proof of the responsibility and capability of the acceptor of

a trade acceptance is obtained for the most part from the maker, who at the same time becomes the indorser when he presents the paper for rediscount. The credit manager, then, wants to be sure that the information regarding the acceptor is correct, even though the financial standing of the indorser is first class. The temptation, investigation indicates, is for the maker to put the acceptor's best financial foot forward, when he comes to the bank with trade acceptance paper.

"For this reason," suggests one banker, "the data thus obtained should be minutely scrutinized. The indorser may not always be the best source of information because unconsciously at least he may, as the representative of the selling house, be too anxious to increase sales and make as many turnovers as possible. 'Second-hand' information of this sort might, if distorted in any way, defeat the whole purpose of trade acceptances as especially desirable two-name paper for the bank. Such data might indeed make the offering of security poorer from the standpoint of dependability than a commercial short-time note.

"A better way would be to locate the acceptance with the acceptor's own bank, an alternative often possible, no doubt. This would be fair and desirable for every bank. In fact, it would automatically afford each banker an opportunity to check up at first hand the paper submitted, even though the trade acceptance in a way would be treated as single name paper strictly from the credit routine standpoint.

"Under this arrangement the credit responsibility of the indorser is primarily dependent on his ability to collect from the acceptor just as in open account transactions where the credit standing of the jobber or wholesaler is dependent on the class of his accounts. Certainly the signature of a country merchant miles away will not of itself add to the security of the instrument, except the merchant be known to the

seller's bank. It indicates only that the dealer is conforming to the more clear-cut form of paying his bills. Obviously the merchant's own local bank is the best judge of the credit risk involved in accepting him as the acceptor of this sort of paper. The bank officials know the merchant's general standing, his ability, and his integrity. They should know the merchant's borrowing capacity better than the seller's bank in a distributing center miles away."

THIS PLAN OF USING TRADE ACCEPTANCES IS NOT ONLY
INTERESTING BUT PROFITABLE AS WELL

In practice this banker's plan works out somewhat as follows: Gaynor and Company, a jobber, sells goods to Edward Hunt, a country merchant, and sends him an acceptance, which he accepts. Instead of returning it to the company, however, he turns it in to his bank for discount. The bank charges the acceptance against the local merchant and passes through a credit for the jobber to the amount of the invoice. In this way the jobber gets the money for the immediate needs of his business, yet neither he nor his bank have to finance the buyer. The merchant's bank finances the transaction and earns the discount. He decides on the worth of the risk and corroborates the jobber's judgment in selling to the merchant. The idea behind this plan is that it relieves the selling community of the credit burden which, some bankers believe, should fall on the finances of the locality receiving the benefits of the goods. At the same time the smaller bank has the opportunity of discounting attractive paper and increasing its profits materially.

The plan, it is argued, tends to lessen the amount of necessary analysis by banks of acceptor's responsibility—a difficult and important task for the seller's bank if the value of the paper is to be accurately estimated.

One of the important reasons for encouraging the wisest use of the trade acceptance, as outlined in the volume on loans and discounts, is because it is eligible for rediscount with the Federal Reserve System. Many banks have not favored joining the Federal Reserve System because their officers could see little available paper in their vaults to rediscount. The trade acceptance largely overcomes this objection, for it will no doubt always be eligible for rediscount. Placing paper of this sort, therefore, among the resources of a small state bank would give it the benefit of the rediscounting privilege. This alone might be a good reason for joining the Federal Reserve System. With the development of the trade acceptance an analysis of all elements connected with its use will help the banker, whether large or small, to decide what procedure to take.

As proof of how the trade acceptance is growing in favor, take the one instance of a southern wholesaler who discounted trade acceptances amounting to more than \$1,150,000 during one year and of this sum lost only \$140, due to the failure of a small manufacturer. In precisely the same way other business men have taken advantage of the plan.

This, of course, imposes not only new credit tasks on bankers, but new routine work as well. And this brings us to the problem of recording and collecting trade acceptances. If a banker discounts acceptances he will want to back up his credit department with concise and adequate records. Some banks find it simplifies the routine to purchase acceptances, instead of discounting them, and figure the running interest, making a suitable charge for this service, together with exchange charges each month. At the suggestion of the American Trade Acceptance Council, some banks have worked out a simple way to take care of acceptances to good advantage. The bank gives each

NAME _____						
ADDRESS _____						
Date of Purchase	Name of Maker or Acceptor	Place of Payment	Amount of Principal	Amount of Interest	Total Amount	Date of Maturity
						Account Number _____
Handled as Collection Number	Disposition		Exchange Cost	Remarks	Balance or Total Amount of Acceptances Outstanding	
	Returned Unpaid	Paid			Date	Amount

Figure 110: Here, shown in two sections, is the trade acceptance liability ledger in use by one bank. As soon as a customer presents any paper of this type for discount, one of the forms is filled out.

MERCHANTS NATIONAL BANK Richmond, Virginia					
To We enclose herewith for collection the item stated below				Please refer to our number No. 7635	
NO PROTEST					
Date sent	Payer	Amount	Due	Indorser	Date or Number
	Advise payment by our number. Do not hold drafts for convenience of payer.				

Figure 111: This form, made out in triplicate to furnish adequate records for the bank's needs, satisfactorily takes care of each trade acceptance which may be sent out to any other bank for collection.

customer selling any quantity of these acceptances, a number. When the customer offers trade acceptances for sale or discount, the total amount of the acceptances is entered on the offering book, and his account on the books of the bank is credited with that amount. The customer's number is then placed on the reverse side of the acceptances as follows: T.A. No. 1. An account is then opened in the liability ledger (Figure 110).

Trade acceptances purchased at any time from this customer are entered in the space provided in the liability ledger which is arranged to include all necessary data. Having been so listed, these acceptances are delivered to the collection department which forwards them to the various places of payment for collection. As each one is paid or returned, the collection department advises the discount department. Paid items are credited to the trade acceptance account, and those returned unpaid are charged against the seller's account in the general ledger and in the liability book kept in the discount department.

By this method it is easy to see how the balances outstanding change from day to day. At the end of the month, interest on the daily outstanding amount of trade acceptances purchased is charged against the account of the seller, together with all exchange charges incidental to the collection of these items.

It is considered important to give each account a number so that the collection department can keep track of the items in numerical order. This makes the routine more simple. It advises the discount department by number of all the acceptances paid or returned. The methods of collection follow definite principles. To make the work uniform all items are entered on a special form (Figure 111) made out in triplicate. The original goes out with the collection, the duplicate goes to the discount department for its information, and the third copy remains in the collection files for reference.

DEBIT NO PROTEST				Number 7535
Date sent	Payer	Amount	Due	ENDORSER

Figure 112: How well the routine of handling the trade acceptance is followed out, is evidenced by this form, which serves as a debit to record trade acceptances sent to correspondents for collection.

The item described below has been received from the MERCHANTS' NATIONAL BANK of Richmond, Va.			
By _____ and entered for collection, their instructions noted			
No Protest			
Date sent	Payer	Amount	Due
	Please sign and return by first mail		

Figure 113: For an additional follow-up record on all acceptance items sent out for collection, this bank provides the notice shown above for return from the correspondent bank receiving the collection.

The second copy also serves as a receipt to the discount department for the acceptances sent out.

Figure 112 is the debit ticket which the collection department makes out for a charge against the correspondent to whom the items are sent for collection. As a further safeguard, the bank which receives the items is asked to send back a receipt for the acceptances as illustrated in Figure 113.

These forms, of course, are flexible in their make-up and can be changed to meet individual needs. In fact, they can easily be arranged in sets so that by the use of carbons the information can be entered on several of the records at once. But the principles are the same in any case and show how the paper can be safeguarded and handled most effectively.

The form of liability ledger shown in Figure 110 could be used even though a bank desired to discount each individual acceptance. There is danger, however, that should banks insist upon discounting this paper, it would be a very tedious task for the discount department, and nothing would be saved by this method. In Canada, for instance, bankers make a practice of discounting these acceptances. In the United States, with the tremendous amount of business done, it is likely that paper of this sort, if discounted, would not become popular in banks on account of the large amount of extra detail work necessary, while, if the interest is figured on running time, or on the same basis as call loan interest is figured, the reverse would be true. In fact, trade acceptances, handled on a practical basis, are becoming more widely popular.

To facilitate the work, some banks might find it advisable to make up the liability ledger in triplicate, in order that the sellers could secure the total monthly statement of their transactions with the bank during the month. Of course, it is entirely possible to have other forms which would give the bank the total

acceptances handled for each acceptor, and so on. But this, perhaps, is not altogether necessary, as the bank is more vitally interested in the amount of trade acceptances purchased from each customer.

It is worth while adding that if a customer is discounting his own paper at the same time that he is selling trade acceptances, the total amount of trade acceptances outstanding at any time should be posted to his account in the liability ledger, showing the amount for which he is liable at all times, both contingent and direct.

This, then, shows in a concise way, a simple method for handling trade acceptances worked out by a committee of bankers and adopted partially or fully by some banks. Any modification or extension of the plan can be made to suit the needs of each bank.

Indirectly, at least, the method of disposing of trade acceptances has to do with the success of the credit department in handling all such paper satisfactorily. And by using good judgment with the aid of properly kept records, the credit manager can safeguard the interests of his bank and help the collection department to bring payments in promptly. At the same time he encourages among the bank's customers greater care in selling goods and helps to raise the acceptors' standards of doing business. Broadly considered, isn't this cooperating in the general task of making all credits safe, which in the final analysis means safer and more profitable banking?

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